

COMMITTEE ON WAYS AND MEANS
Senator Rosalyn H. Baker, Chair
Senator Shan S. Tsutsui, Vice Chair

Testimony Index

Date: Friday, January 11, 2008

Time: 1:30 PM

Place: Conference Room 211

State Financial Plan and Supplement Budget

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TESTIMONY BY GEORGINA K. KAWAMURA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE SENATE COMMITTEE ON WAYS AND MEANS

January 11, 2008

Chair Baker and Members of the Committee:

Thank you for this opportunity to present to you an overview of the State's financial condition.

After several years of extraordinary expansion, Hawaii's economy shows signs of moderation, as can be seen in recent visitor counts and real estate trends. The economy grew in 2007, but the pace of growth had slowed down. For 2008 and the near term, we expect to see a continuation of this moderating trend, but the overall picture of the economy is that it remains healthy and solid.

Hawaii's unemployment rate consistently stayed below 3% during the past three years and remained among the lowest in the nation. The number of new jobs being created grew at an average rate of 2.1% during 2007. Hawaii's total personal income increased by 6.7% in the first half of 2007 and is projected to grow by 5.9% in 2008. These are all positive numbers that are consistent with the current business cycle.

Inflation, as measured by the Honolulu Consumer Price Index, has improved by dropping a full percentage point to be at 4.9% in the first half of 2007.

REVENUE PROJECTIONS

As expected, the moderation in the economy has had an impact on recent State tax collections. General fund tax revenues rose by only 3.4% in FY 07, a significant difference from the double-digit growth of 16.0% in FY 05 and 10.9% in FY 06. In the first

six months of FY 08, actual general fund tax revenues registered a 4.5% growth over the same period last year.

At the August 28, 2007 meeting, the Council on Revenues (COR) estimated that general fund tax revenues would grow by 5.7% in FY 08 and by 3.8% in FY 09. Revenue growth for the four out-years (FYs 10 to 13) was forecast to be in the range of 4.7% to 6.2%. These projections indicate that moderation in economic activities and tax revenues is expected to continue for the current fiscal biennium and into the four out-years of the planning horizon. The proposed Executive Supplemental Budget and Financial Plan were developed using these August 2007 revenue projections.

Subsequently, the COR met just two days ago on January 9, 2008 to update its quarterly revenue projections. Revisions were made to its earlier forecast: projected growth in general fund tax revenues was reduced from 5.7% to 4.9% in FY 08 and increased from 3.8% to 4.1% in FY 09; estimates for the out-years remained the same. Combining the changes from tax and non-tax sources, the net result is a reduction in general fund revenues of -\$30.3 million in FY 08 and -\$9.1 million in FY 09, as compared with August estimates. These reductions in the base also produce revenue "losses" in the out-years.

THE GENERAL FUND FINANCIAL PLAN

The Multi-Year General Fund Financial Plan is presented in Attachment 1. As stated above, this plan incorporated revenue projections by the COR as of August 2007. With the recent reductions in revenue estimates, we will need to re-examine our revenue assumptions and develop appropriate measures for prudent fiscal management.

The general fund balance was \$493.4 million at the end of FY 07 (June 30, 2007) and was estimated to be \$475.4 million at the end of FY 08 (June 30, 2008), using the earlier forecast.

In the coming weeks, the Governor will submit legislative proposals for your consideration. Among them will be measures that will have financial impact, including proposals for strengthening the economy, addressing critical needs, and providing tax relief for Hawaii residents. Furthermore, the State Constitution requires that a tax refund be provided to Hawaii taxpayers when the general fund balance exceeds revenues by more than 5% for two consecutive years. We have met that threshold and, therefore, need to fulfill this requirement.

Taking into account the requests contained in the Executive Supplemental Budget, the emergency appropriations to be recommended for FY 08, and the fiscal impact of legislative proposals to be submitted as mentioned above, the general fund balance was projected to be \$213 million at the end of FY 09 (June 30, 2009). The Six-Year General Fund Financial Plan shows a positive balance for each year in the planning period. These positive balances reflect a conscious effort by the Administration to live within its means by managing and adjusting program needs so that they can be supported with available resources. We will continue to exercise fiscal restraint and, as new financial constraints emerge, we will take appropriate measures to ensure that the budget remains on a sustainable path.

The State's disciplined approach to managing its budget has been favorably recognized by all three major credit rating agencies. In the most recent G.O. bond sale in March 2007, the State of Hawaii maintained a rating of Aa2 with a stable outlook from Moody's Investors Services and an AA from Fitch Ratings. Standard & Poor's Ratings

Services upgraded Hawaii from the AA- level to a solid AA. All three agencies credited the State's strong financial management for the high ratings received.

I would like to provide you with a retrospective look at the recent changes in the general fund balances. With a healthy economy and prudent management of State resources, we were successful in building a substantial balance in the General Fund that reached \$732.3 million in FY 06, the highest level ever achieved in Hawaii. These additional resources allowed the State to catch up with many critical needs that had been deferred in previous years.

However, beginning with FY 07, substantial increases in collective bargaining and other specific appropriations began to significantly reduce the \$732.3 million balance in the General Fund. Specifically for FYs 07, 08 and 09, collective bargaining costs amount to \$523 million and appropriation measures outside the biennium budget add up to another \$200 million. Cash CIPs in the sum of \$169 million also impacted the carry-over amount. As a result, with only moderate growth expected in tax revenues, the general fund balance is projected to decrease to \$475.4 million at the end of FY 08 and to further decrease to \$213 million at the end of FY 09.

THE EXECUTIVE SUPPLEMENTAL BUDGET RECOMMENDATIONS

The Executive Supplemental Budget recommendations reflect the new financial constraints that the State now faces. Staying within the intent of a supplemental budget, our instructions to all Executive Branch departments and agencies encompassed the following guidelines:

- Program goals should be accomplished within existing funding levels.
- Supplemental budget requests are limited to the most immediate and critical needs.

- Trade-offs and transfers among programs are encouraged to meet departmental needs and to bring about greater efficiency.

THE OPERATING BUDGET

All Means of Financing

For **FY 08**, adjustments to the budget will be proposed through emergency appropriation measures to address shortfalls in the following areas:

- Adult Mental Health program (\$10 million in general funds)
- Emergency Medical Services (\$2 million in general funds)
- Increase in electricity costs (\$1 million in general funds)
- Highways program (\$20 million in special funds)

For **FY 09**, total proposed adjustments to the operating budget amount to a net increase of \$306.7 million, or 2.9%, from all means of financing, as shown below.

<u>Means of Financing</u>	<u>FY 09 Act 213/2007 Appropriation</u> (\$)	<u>FY 09 Proposed Adjustment</u> (\$)	<u>FY 09 Recommended Appropriation</u> (\$)
General Funds	5,273,531,614	100,220,903	5,373,752,517
Special Funds	2,051,349,641	59,003,322	2,110,352,963
Federal Funds	1,699,966,165	14,778,442	1,714,744,607
Private Contributions	150,969	.....	150,969
County Funds	674,179	.....	674,179
Trust Funds	58,498,819	32,836,065	91,334,884
Interdept. Transfers	1,071,890,536	94,409,987	1,166,300,523
Revolving Funds	371,815,328	2,684,782	374,500,110
Other Funds	<u>11,693,196</u>	<u>2,750,000</u>	<u>14,443,196</u>
Total	10,539,570,447	306,683,501	10,846,253,948

General Fund

For **FY 09**, total proposed general fund adjustments to the operating budget amount to a net increase of \$100.2 million, or 1.9%, over the current appropriation level.

It should be noted that two-thirds of the request (\$66.1 million) is due to the increase in fringe benefits costs, including pension accumulation and contribution for Social Security and Medicare, as mandated by Acts 213 and 256, SLH 2007.

Increase in Positions

The Supplemental Budget includes an increase in the number of permanent positions and a net decrease in temporary positions.

	<u>Temporary</u>	<u>Permanent</u>
Total adjustments	(158)	437
By means of financing:		
General Funds	(49)	301
Special Funds	(6)	39
Federal Funds	(61)	52
Trust Funds	(33)	1
Revolving Funds	(1)	14
Interdepartmental Transfers	8	14
Other Funds	(16)	16

The additional positions are for the following purposes:

- Establishment of 108 positions in the Department of Education (DOE) for autism services. The positions include teachers, educational aides, social workers and behavioral specialists. Providing services with DOE employees instead of contracted personnel is expected to result in cost savings and more continuity in the program.
- Addition of 56 positions in the Department of Public Safety, to include: 21 positions for compliance with the audit on the Mental Health Services program, 5 additional staff for the Inmate Classification Office to address overcrowding, 12 deputy sheriffs for neighbor island airports, 12 ACOs at correctional facilities on Hawaii, and 6 other positions.

- Addition of 41 positions in the University of Hawaii System to strengthen security measures on all campuses.
- Conversion of 12 positions in the Department of Transportation Harbors Division from the CIP to the operating budget.
- Addition of 15 positions in the Department of Land and Natural Resources for the Division of Conservation and Resource Enforcement.
- Conversion of a large number of temporary positions to permanent status to reflect the ongoing needs of various programs in the Departments of the Attorney General, Budget and Finance, Health, and Human Services.

Additional summary details of the Executive Supplemental Budget can be found in the "Budget in Brief" which was provided to all members of the Legislature last month. Distribution of the Operating Budget by funding sources and by department is presented on pages 4 through 9 of this document. Highlights of the Operating Budget by department are presented in the sections that follow, starting on page 17.

THE CAPITAL IMPROVEMENT (CIP) BUDGET

For FY 09, total proposed CIP adjustments amount to \$1.1 billion, to be funded from the following sources:

<u>Means of Financing</u>	<u>FY 09 Act 213/2007 Appropriation (\$)</u>	<u>FY 09 Proposed Adjustment (\$)</u>	<u>FY 09 Recommended Appropriation (\$)</u>
General Funds	.....	.....	.....
Special Funds	106,233,000	- 4,628,000	101,605,000
G.O. Bonds	131,261,000	560,924,000	692,185,000
G.O. Reimbursable	1,000,000	.....	1,000,000
Revenue Bonds	63,421,000	500,813,000	564,234,000
Federal Funds	164,713,000	20,685,000	185,398,000
Private Contributions	.....	.....	.....
County Funds	.....	.....	.....
Interdept. Transfers	11,500,000	.....	11,500,000
Revolving Funds	.....	.....	.....
Other Funds	<u>100,000</u>	<u>.....</u>	<u>100,000</u>
 Total	 478,228,000	 1,077,794,000	 1,556,022,000

Distribution of the CIP Budget by funding sources and by department is presented on pages 10 through 15 of the "Budget in Brief." Highlights of the CIP program by department are presented in the sections that follow, starting on page 17.

THE GENERAL FUND EXPENDITURE CEILING

By law, general fund appropriations must comply with the expenditure ceiling requirements that are set forth in Section 9, Article VII of the Hawaii State Constitution and Section 37-92 of the Hawaii Revised Statutes.

At the aggregate level, including all branches of government, total proposed appropriations from the General Fund are within the expenditure ceilings for both FY 08 and FY 09.

For the Executive Branch, total proposed appropriations from the General Fund (which include the Executive Supplemental Budget for FB 2007-09 and other specific appropriation measures to be submitted by the Administration) are also within the appropriation ceilings for the Executive Branch in both fiscal years.

A summary statement on the General Fund Expenditure Ceiling and Executive Branch Appropriation Ceiling is included in Attachment 2.

THE DEBT LIMIT

Section 13, Article VII of the Hawaii State Constitution places a debt limit on G.O. bonds that may be issued by the State. The limit requires total debt service (principal and interest payments) not to exceed 18.5% of average general fund revenues. It has been determined that the total amount of principal and interest calculated on: a) all bonds issued and outstanding; b) all bonds authorized and unissued; and c) all bonds proposed in the Executive Budget, including State guaranties, will not cause the debt limit to be exceeded at the time of each bond issuance.

The Declaration of Findings with respect to the G.O. bond debt limit is included in Attachment 3.

In closing, I want to thank you again for the opportunity to make this presentation. As always, we will work with you on an ongoing basis during the 2008 Session to address issues related to the Executive Supplemental Budget and General Fund Financial Plan.

Attachments

MULTI-YEAR FINANCIAL SUMMARY
GENERAL FUND
FISCAL YEARS 07 - 13
(in millions of dollars)

	<u>Actual FY 07</u>	<u>Estimated FY 08</u>	<u>Estimated FY 09</u>	<u>Estimated FY 10</u>	<u>Estimated FY 11</u>	<u>Estimated FY 12</u>	<u>Estimated FY 13</u>
REVENUES:							
Executive Branch:							
Tax revenues	4,590.2	4,848.1	5,030.3	5,274.7	5,522.3	5,800.8	6,162.3
Nontax revenues	520.6	472.9	473.8	473.3	484.1	486.1	489.4
Judicial Branch revenues	31.2	29.1	29.6	30.1	30.5	31.0	31.5
Other		(0.6)	(42.2)	(59.4)	(59.4)	(59.4)	(59.4)
TOTAL REVENUES	5,142.1	5,349.5	5,491.5	5,718.8	5,977.6	6,258.5	6,623.9
EXPENDITURES							
Executive Branch:							
Operating	4,745.3	5,027.4	5,373.8	5,466.5	5,562.0	5,615.9	5,750.4
CIP	57.5	50.0	-	-	-	-	-
Specific appropriations	524.0	168.2	251.2	282.7	282.8	283.2	283.0
Sub-total	5,326.8	5,245.6	5,625.0	5,749.2	5,844.8	5,899.1	6,033.4
Legislative Branch	34.0	35.0	34.0	34.0	34.0	34.0	34.0
Judicial Branch	134.1	143.8	151.8	151.8	151.8	151.8	151.8
OHA	2.9	3.1	3.1	3.1	3.1	3.1	3.1
Counties	0.6			-	-	-	-
Lapses	(117.4)	(60.0)	(60.0)	(60.0)	(60.0)	(60.0)	(60.0)
TOTAL EXPENDITURES	5,381.0	5,367.5	5,753.9	5,878.1	5,973.7	6,028.0	6,162.3
REVENUES OVER EXPEND.	(238.9)	(18.0)	(262.3)	(159.3)	3.9	230.6	461.6
CARRY-OVER BALANCE (DEFICIT)							
Beginning	732.3	493.4	475.4	213.0	53.8	57.7	288.3
Ending	493.4	475.4	213.0	53.8	57.7	288.3	749.9
<i>Emergency & Budget Reserve Fund</i>	61.5	49.7	62.0	74.3	86.5	98.8	111.1

**SUMMARY STATEMENT OF GENERAL FUND
EXPENDITURE CEILING AND APPROPRIATIONS**

A. Total State Personal Income (in \$ millions)

1. Calendar Year 2003	37,837
2. Calendar Year 2004	41,075
3. Calendar Year 2005	44,333
4. Calendar Year 2006	47,340
5. Calendar Year 2007*	50,275
6. Calendar Year 2008*	53,241

* As estimated by the Council on Revenues

B. All Branches of State Government

1. General Fund Appropriations

Fiscal Year 2007	5,498,357,149
Fiscal Year 2008 (incl. proposed)	5,587,402,466
Fiscal Year 2009 (incl. proposed)	5,781,178,613

2. General Fund Expenditure Ceilings

Fiscal Year 2008	5,786,820,576
Fiscal Year 2009	6,190,247,244

C. Executive Branch

1. Recommended General Fund Appropriations

Fiscal Year 2009 5,622,930,374

2. Actual General Fund Appropriations

Fiscal Year 2007 \$5,325,598,718
Fiscal Year 2008 5,410,708,439

3. Proposed Add'l Appropriations FY 08

13,000,000

Total FY 2008

5,423,708,439

4. General Fund Appropriation Ceilings

Fiscal Year 2008 5,738,729,388
Fiscal Year 2009 5,801,820,841

DECLARATION OF FINDINGS

Pursuant to Section 37-72 of the Hawaii Revised Statutes, the Director of Finance finds and declares that with respect to the proposed capital improvement appropriations for the budget period 2008-2009 for which the source of funding is general obligation bonds:

(1) Limitation on general obligation debt. Article VII, Section 13, of the State Constitution, states in part: "General obligation bonds may be issued by the State; provided that such bonds at the time of issuance would not cause the total amount of principal and interest payable in the current or any future fiscal year, whichever is higher, on such bonds and on all outstanding general obligation bonds to exceed ... a sum equal to eighteen and one-half percent of the average of the general fund revenues of the State in the three fiscal years immediately preceding such issuance." Article VII, Section 13, also provides that in determining the power of the State to issue general obligation bonds, certain bonds are excludable, including "reimbursable general obligation bonds issued for a public undertaking, improvement or system but only to the extent that reimbursements to the general fund are in fact made from the net revenue, or net user tax receipts, or combination of both, as determined for the immediately preceding fiscal year."

(2) Actual and estimated debt limits. The limit on principal and interest of general obligation bonds issued by the State, actual for fiscal year 2007-2008 and estimated for each fiscal year from fiscal year 2008-2009 to 2010-2011, is as follows:

<u>Fiscal Year</u>	<u>Net General Fund Revenues</u>	<u>Debt Limit</u>
2004-2005	4,471,460,582	
2005-2006	4,904,019,330	
2006-2007	5,122,620,268	
2007-2008	5,330,804,000	894,049,511
2008-2009	5,518,746,000	947,042,355
2009-2010	5,769,783,000	984,950,500
2010-2011	(not applicable)	1,024,858,868

For fiscal years, 2007-2008, 2008-2009, 2009-2010 and 2010-2011 respectively, the debt limit is derived by multiplying the average of the net general fund revenues for the three preceding fiscal years by eighteen and one-half percent. The net general fund revenues for fiscal years 2004-2005, 2005-2006 and 2006-2007 are actual, as certified by the Director of Finance in the Statement of the Debt Limit of the State of Hawaii as of July 1, 2007, dated November 29, 2007. The net general fund revenues for fiscal years 2007-2008 to 2009-2010 are estimates, based on general fund revenue estimates made as of August 28, 2007, by the Council on Revenues, the body assigned by Article VII, Section 7, of the State Constitution to make such estimates, and based on estimates made by the Department of Budget and Finance of those receipts which cannot be included as general fund revenues for the purpose of calculating the debt limit, all of which estimates the Director of Finance finds to be reasonable.

(3) Principal and interest on outstanding bonds applicable to the debt limit. In determining the power of the State to issue general obligation bonds for the fiscal years 2008-2009 to 2026-2027, the total amount of principal and interest on outstanding general obligation bonds are as follows:

Fiscal Year Ending June 30	Gross			Excludable			Net Debt Service		
	Principal Payable	Interest Payable	Debt Service Payable	Principal Payable	Interest Payable	Debt Service Payable	Principal Payable	Interest Payable	Debt Service Payable
2008	323,825,308	241,191,737	565,017,045	16,418,562	2,664,674	19,083,236	307,406,746	238,527,063	545,933,809
2009	338,569,472	226,963,378	565,532,850	12,961,355	1,875,615	14,836,970	325,608,117	225,087,763	550,695,880
2010	333,834,540	195,037,896	528,872,436	6,915,287	1,336,541	8,251,828	326,919,253	193,701,355	520,620,608
2011	355,720,000	164,951,459	520,671,459	10,294,974	1,068,443	11,363,417	345,425,026	163,883,016	509,308,042
2012	315,505,000	147,788,200	463,293,200	7,682,914	654,709	8,337,623	307,822,086	147,133,491	454,955,577
2013	329,140,000	131,611,705	460,751,705	4,667,482	330,119	4,997,601	324,472,518	131,281,586	455,754,104
2014	299,665,000	115,059,332	414,724,332	3,966,623	227,197	4,193,820	295,698,377	114,832,135	410,530,512
2015	299,055,000	99,797,357	398,852,357	3,800,104	156,133	3,956,237	295,254,896	99,641,224	394,896,120
2016	231,170,000	85,115,596	316,285,596	2,441,057	90,960	2,532,017	228,728,943	85,024,636	313,753,579
2017	255,805,000	73,041,052	328,846,052	2,124,469	51,141	2,175,610	253,680,531	72,989,911	326,670,442
2018	199,235,000	61,389,492	260,624,492	973,985	16,062	990,047	198,261,015	61,373,430	259,634,445
2019	162,920,000	52,761,103	215,681,103	2,420	382	2,802	162,917,580	52,760,721	215,678,301
2020	148,390,000	44,946,159	193,336,159	2,546	262	2,808	148,387,454	44,945,897	193,333,351
2021	157,150,000	37,327,021	194,477,021	2,674	134	2,808	157,147,326	37,326,887	194,474,213
2022	164,050,000	29,240,433	193,290,433	0	0	0	164,050,000	29,240,433	193,290,433
2023	130,075,000	21,300,741	151,375,741	0	0	0	130,075,000	21,300,741	151,375,741
2024	127,920,000	14,886,959	142,806,959	0	0	0	127,920,000	14,886,959	142,806,959
2025	92,590,000	8,920,728	101,510,728	0	0	0	92,590,000	8,920,728	101,510,728
2026	76,505,000	4,802,655	81,307,655	0	0	0	76,505,000	4,802,655	81,307,655
2027	29,425,000	1,471,250	30,896,250	0	0	0	29,425,000	1,471,250	30,896,250

Additionally, the outstanding principal amount of bonds constituting instruments of indebtedness in which the State has incurred a contingent liability as a guarantor is \$191,000,000, all or a portion of which pursuant to Article VII, Section 13 of the State Constitution, is excludable in determining the power of the State to issue general obligation bonds.

(4) Amount of authorized and unissued general obligation bonds and proposed bonds. As calculated from the State Comptroller's bond fund report as of October 31, 2007, adjusted for (a) appropriations made in Acts 169 and 213, Session Laws of Hawaii 2007, to be expended in fiscal year 2008-2009 (b) lapses proposed in THE EXECUTIVE BUDGET SUPPLEMENTAL (Budget Period: 2007-2009) (referred to as the "Budget") is the total amount of authorized but unissued general obligation bonds amounting to \$1,994,210,978. The amount of general obligation bonds proposed in the Budget is \$564,424,000 (does not include capital improvement appropriations to be funded through the issuance of general obligation bonds proposed by the Judiciary). The total amount of general obligation bonds previously authorized and unissued and the general obligation bonds proposed in the Budget is \$2,558,634,978.

(5) Proposed general obligation bond issuance. As reported in the Budget, as it applies to the fiscal period 2007-2008 to 2010-2011, the State proposed to issue \$400,000,000 in general obligation bonds during the remainder of fiscal year 2007-2008, \$325,000,000 in general obligation bonds during the first half of fiscal year 2008-2009, \$340,000,000 in general obligation bonds during the second half of fiscal year 2008-2009, \$370,000,000 in general obligation bonds semi annually during fiscal years 2009-2010, \$375,000,000 in general obligation bonds during the first half of fiscal year 2010-2011, and \$380,000,000 in general obligation bonds during the second half of fiscal year 2010-2011. It is the practice of the State to issue twenty-year serial bonds with principal repayments beginning the fourth year, payable in substantially equal annual installments of principal and interest payment with interest payments commencing six months from the date of issuance and being paid semi-annually thereafter. It is

assumed that this practice will continue to be applied to the bonds, which are proposed to be issued except that principal repayments will begin in the fourth year.

(6) Sufficiency of proposed general obligation bond issuance to meet the requirements of authorized and unissued bonds and the bonds proposed in the Budget. From the schedule reported in paragraph (5), the total amount of general obligation bonds, which the State proposes to issue during this fiscal year and in fiscal years 2008-2009, 2009-2010, and 2010-2011, is \$2,560,000,000. The total amount of \$2,560,000,000 which is proposed to be issued through fiscal year 2010-2011 is sufficient to meet the requirements of the previously authorized and unissued bonds and the bonds proposed in the Budget, the total amount of which is \$2,558,634,978, as reported in paragraph (4). Thus, taking the Budget into account the amount of previously authorized and unissued bonds and bonds proposed in the versus the amount of bonds which is proposed to be issued by June 30, 2011, the Director of Finance finds that in the aggregate, the amount of bonds is sufficient to meet these requirements.

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

(i) It is not known exactly when projects for which reimbursable bonds have been authorized in prior acts and in the Budget will be implemented and will require the application of proceeds from a particular bond issue; and

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

However, the Director of Finance notes that with respect to the principal and interest on outstanding general obligation bonds, as reported in Section 3 herein, the average proportion of principal and interest which is excludable each year from calculation against the debt limit is 1.86 percent for the ten years from fiscal year 2007-2008 to fiscal year 2016-2017. For the purpose of this declaration, the assumption is made that 1 percent of each bond issue will be excludable from the debt limit, an assumption which the Director of Finance finds to be reasonable and conservative. (B) Bonds constituting instruments of indebtedness under which the State incurs a contingent liability as a guarantor can be excluded but only to the extent the principal amount of such guaranties does not exceed seven percent of the principal amount of outstanding general obligation bonds not otherwise excluded under subparagraph (A) of this paragraph (7) and provided that the State shall establish and maintain a reserve in an amount in reasonable proportion to the outstanding loans guaranteed by the State as provided by law. According to the Department of Budget and Finance and the assumptions presented herein, the total principal amount of outstanding general obligation bonds and general obligation bonds proposed to be issued, which are not otherwise excluded under Article VII, Section 13 of the State Constitution for the fiscal years 2007-2008, 2008-2009, 2009-2010 and 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>
2007-2008	4,442,724,012
2008-2009	4,762,504,540
2009-2010	5,161,270,000
2010-2011	5,553,000,000

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

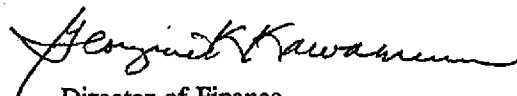
liability, the aggregate principal amount of the portion of the outstanding guaranties and the guaranties proposed to be incurred, which does not exceed seven percent of the average amount set forth in the last column of the above table and for which reserve funds have been or will have been established as heretofore provided by, 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 not otherwise excluded pursuant to Article II, Section 3 of the State Constitution will become due and payable in the same fiscal year in which the greatest amount of principal and interest on general obligation bonds, after exclusions, occurs. Thus, based on such assumptions and on the determination in paragraph (8), the aggregate principal amount of the portion of the outstanding guaranties; which must be included in determining the power of the State to issue general obligation bonds, is \$0.

(8) Determination whether the debt limit will be exceeded at the time of issuance. From the foregoing and on the assumption that the bonds identified in paragraph (5) will be issued at an interest rate of 6 percent thereafter, as reported in the Budget, it can be determined from the following schedule that the bonds which are proposed to be issued, which includes all bonds issued and outstanding, bonds previously authorized and unissued and the bonds proposed in the Budget, will not cause the debt limit to be exceeded at the time of each bond issuance:

<u>Time of Issue and Amount of Issue to be Counted Against Debt Limit</u>	<u>Debt Limit at Time of Issuance</u>	<u>Greatest Amount & Year of Principal & Interest</u>
2nd half FY 2007-2008 \$396,000,000	894,049,511	589,292,850 (2008-2009)
1st half FY 2008-2009 \$321,750,000	947,042,355	598,945,350 (2008-2009)
2nd half FY 2008-2009 \$336,600,000	947,042,355	592,133,436 (2009-2010)
1st half FY 2009-2010 \$366,300,000	984,950,500	605,910,459 (2010-2011)
2nd half FY 2009-2010 \$366,300,000	984,950,500	627,888,459 (2010-2011)
1st half FY 2010-2011 \$371,250,000	1,024,858,868	639,025,959 (2010-2011)
2nd half FY 2010-2011 \$376,200,000	1,024,858,868	649,846,455 (2012-2013)

(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 proposed in the Budget and for all bonds previously authorized and unissued and calculated for all bonds issued and outstanding and guaranties, will not cause the debt limit to be exceeded at the time of issuance.

The Director of Finance hereby finds that the bases for the declaration of findings set forth herein are reasonable. The assumptions set forth in this declaration with respect to the principal amount of general obligation bonds which will be issued, the amount of principal and interest on reimbursable general obligation bonds which are assumed to be excludable and the assumed maturity structure shall not be deemed to be binding, it being the understanding that such matters must remain subject to substantial flexibility.


 Director of Finance
 State of Hawaii