TESTIMONY BY GEORGINA K. KAWAMURA
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STATE OF HAWAII
TO THE SENATE COMMITTEE ON WAYS AND MEANS
AND
THE HOUSE COMMITTEE ON FINANCE

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Chairs Kim and Oshiro and Members of the Committees:

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

The year 2008 will be remembered as a time of great economic challenge for Hawaii as well as for many parts of the world. At the national level, problems that arose last year in the housing sector and sub-prime mortgage market have been neither resolved nor contained. They weakened the foundation of the credit and financial markets to such an extent that real economic operations became seriously constrained by the lack of financing. The spreading adverse impact can be seen in business bankruptcies and closures, in lower consumer confidence and spending, and in job losses and rising unemployment. For state and local governments, the financial crisis and economic downturn have caused great hardship by reducing tax revenues at a time when operating costs continued to rise. As reported by the National Association of State Budget Officers, the majority of state governments in the United States currently face a significant shortfall in their budgets.

THE ECONOMY

Hawaii experienced exceptional economic growth in 2004, 2005 and 2006. When the economy leveled off in 2007, we had anticipated the slowdown and had developed cautionary, preemptive fiscal measures to keep State spending in check. What no one could reasonably foresee was the unprecedented size and rapidity of the economic contraction that would occur at the national and global levels.

The negative impact of these external events on Hawaii has been felt in many sectors. In the first nine months of 2008, visitor arrivals declined 9.1% and visitor expenditures were down 7.4%. The construction industry had a slowdown from the peak of previous years with a reduction in building permits and job losses. The housing market has also shown weakness, although at a milder level than on the mainland. Contraction in these main industry sectors is affecting retail businesses and the services sector as well. Hawaii's unemployment rate rose above 3% for the first time in 2008 after three straight years of being in the 2% range and among the lowest in the nation. It is now at 4.9%.

The consensus among business, academic and government economists is that Hawaii's economy will experience no growth in 2009 and may go through a further, deeper contraction before improvements can be expected. However, there are a number of encouraging factors. Important federal and military expenditures in Hawaii continue to provide a measure of stability for the local economy. Inflation is moderating. Oil prices have declined significantly, resulting in lower energy costs. And the commitment of the new federal administration to provide substantial financial assistance to the states in the coming months is welcome news. Also on the positive side is the Administration's plan for a major capital improvement initiative to aggressively implement between January 2009 and June 2010 $1.8 billion of currently authorized projects.

REVENUE PROJECTIONS

Actual general fund tax collections in the first five months of FY 09 (July to November) declined by -2.6% over the same period in the previous year.

At its most recent meeting on October 29, 2008, the Council on Revenues projected that general fund revenues would decrease by -0.5% in FY 09 and increase by 3.5% in FY 10 and by 4.5% in FY 11. Revenue growth for the four out-years is currently projected to be in the range from 5.3% to 6.5%. To put these numbers in perspective, it is helpful to look at past revenue increases. General fund tax revenues increased by 8.3% in FY 04, 16.0% in FY 05, 10.9% in FY 06, 3.4% in FY 07, and 1.2% in FY 08. Clearly, lower revenue growth has resulted from the economic moderation in recent years, and negative growth rates are the fiscal reality we face in the current year.

In addition to a smaller revenue base, we have had to respond to successive reductions in revenue forecasts by the Council throughout 2008. For the current FY 09, the estimates were revised from an increase of +4.1% (as projected in January 2008) to a decrease of -0.5% (as of October 2008). This translates to a reduction of $411.7 million in projected tax revenues over a 10-month period. The cumulative effect of these successive reductions in revenue estimates for FYs 09, 10 and 11 is a substantial decrease in the amount of money that the State can expect in the immediate and near future. Given the level of spending that had been authorized by the 2008 Legislature and the anticipated rising cost of government operations, it was clear that our revenues and expenditures were out of balance. Without immediate corrective action, the projected cumulative budget shortfall from general funds would amount to $1.1 billion by the end of FY 11.

Further, we are concerned that revenue projections may be reduced again due to continuing economic weaknesses in Hawaii as well as on the mainland U.S. and around the world. The Council will meet later this week on January 9, 2009. Certainly, we will need to address any new revision to the revenue numbers, and we stand ready to work with you in this session to develop the necessary and appropriate actions to bring the budget into balance, as required by the State Constitution.

ACTIONS TO RESTORE FISCAL BALANCE

Six months ago, we approached FY 09 with caution. While the economic environment at that time did not seem as troubling as it does now, we saw the need for immediate steps to control spending, reduce expenses, and economize general funds. Actions to bridge the budget gap in FY 09 included the following:

- Implement a 4% restriction on discretionary general fund expenses ($34.6 million).
- Establish a general hiring freeze except in areas that impact public health and safety. (The savings are part of the restrictions.)
- Restrict allotment for most off-budget, specific appropriations ($19.1 million).
- Restructure debt on general obligation (G.O.) bonds ($95.0 million).
- Adjust the bond issuance plan ($9.8 million).
- Restrict and convert cash CIP to bond financing for the Department of Education (DOE) ($50.0 million).
- Restrict and convert cash CIP to bond financing for the University of Hawaii (UH) ($12.5 million).

In total, these actions produced $221 million in general fund savings. However, with continuing reductions to FY 09 revenue projections, we anticipate the need for a transfer of $40 million from the Emergency and Budget Reserve Fund, Hawaii's rainy day fund. The combination of these measures will enable us to maintain a positive balance in the General Fund at the end of FY 09.

The restrictive budget execution policies for FY 09 were the first phase of a coordinated plan to reshape the State Budget and redirect the commitment of public resources. We believe that the current fiscal environment can be an opportunity for State government to become more focused and efficient. This is the foundation upon which the Executive Budget for FB 2009-11 was developed.

As an integral part of budget preparation, departments and agencies were directed to conduct a critical review and assessment of their core functions and essential services. Budget ceilings were established and funding requirements were adjusted to meet revenue constraints. Departments were instructed to develop and submit their budget requests at three levels corresponding to mandatory reductions of 10%, 15% and 20% of their current discretionary expenses. These contingency plans were designed to prepare for further adjustments, as necessary, if revenue conditions worsened.

The result is a biennium budget that reduces operating costs by a net general fund total of $395 million ($209 million in FY 10 and $186 million in FY 11). While special funded programs were not subjected to mandatory reductions, they, too, are required to operate under a ceiling.

Executive Budget proposals for FB 2009-11 were developed to meet the following objectives:

1. **Align program requirements with appropriate means of financing.** We identified programs and activities that should be funded with revenue sources other than general funds. As a result, 64 existing positions and related program expenses are proposed to be funded from federal, special, revolving, or trust funds. General fund savings amount to $20 million each year.

2. **Continue to restructure and refinance G.O. bond debt.** Debt restructuring has been an important tool of fiscal management as we seek to find market opportunities for reducing the debt service costs of the State's borrowing program. We plan to aggressively pursue debt restructuring in the coming months as uncertainty in the credit markets abates. Total reduction in debt service costs that will result from refinancing and restructuring current G.O. debt is estimated to be $205.2 million in the biennium.

3. **Reduce operating costs to meet mandatory budget cuts and preserve essential services of State government.** The need to understand what government can and should do is heightened at a time when resources are severely limited. The necessity of having to set priorities in the budget gives clarity to our collective goals. For the fiscal biennium, substantial cuts were made across the board as well as in targeted areas. The overall reduction from general funds amounted to 14% of discretionary costs and was achieved through consolidating operations, eliminating non-essential or newly added services, eliminating programs of low priority, and modifying levels of benefits and services. In the coming weeks, the individual departments will have an opportunity to discuss the specific adjustments in their programs when they come before you to present their biennium budget requests.

4. **Minimize cuts in areas of strategic importance to Hawaii.** While budget reductions were unavoidable in this severe economic downturn, we maintained strong support for the critical investments that must be made to build a stronger foundation for Hawaii's future. Public education and clean energy initiatives are two of the highest priority areas. Budget recommendations for the DOE reflect the reductions that were proposed by the Superintendent and approved by the Board of Education. Total general fund reductions amount to $40 million each year and a decrease of 240 positions (148 permanent,

92 temporary). The proposed cuts are mainly from the State and district levels, support services, and categorical programs and do not affect any of the classroom teaching positions. A conscious effort was made to minimize impacts at the school level.

The same concern was extended to the UH. General fund reductions of $13.5 million each year, as approved by the Board of Regents, are recommended for the biennium. At this level, the cuts are not expected to affect core instructional activities.

5. **Minimize negative impact on our employees.** In making the necessary program cuts, we were aware of and sensitive to the impact that these budget reductions would have on the welfare of our State employees. At a time when businesses are cutting payroll and laying off workers, government should not be adding to the unemployment rolls. We are committed to the goal of no layoffs for State employees and are able to meet this goal for the fiscal biennium.

   In light of the State's current economic and fiscal condition, we will not propose pay increases for our employees in the current collective bargaining negotiations.

   Additionally, as indicated by the Governor, legislation will be introduced to recommend the deferral of authorized pay raises for officers of State government, including the Executive Branch, the Judiciary and the Legislature.

For FB 2009-11, the capital improvement plan is focused on an expanded Major Repair and Maintenance Program to implement projects quickly to address the current backlog and stimulate Hawaii's economy. We again seek a major infusion of G.O. bond funds to build more rental and for-sale affordable housing. Priority was given to projects currently in progress or nearing completion. Projects that improve energy efficiency or contribute to the development of clean energy alternatives for Hawaii also received support. We will continue to move forward with the modernization of the State's airports and harbors.

ADDITIONAL PROPOSALS TO RESTORE FISCAL BALANCE

Under the prevailing economic and financial conditions, our revenue gap of $1.1 billion cannot be closed by budget reductions alone. Further cuts to programs may prove unproductive and destabilizing at this time when public spending and employment are a necessary stabilizing force for the economy. Therefore, to supplement reductions in the budget, we propose the following actions to provide the State with additional resources at this critical time:

1. Transfer from the Emergency and Budget Reserve Fund (EBRF). The rainy day fund was established to address the exact kind of economic difficulties we are facing in this downturn, a condition that may continue through 2010. The current balance in this fund is $74 million. As stated earlier, a transfer of $40 million to the General Fund for FY 09 will be proposed through an emergency appropriation bill to be submitted in the 2009 Legislative Session. To help close the revenue gap in FB 2009-11, an additional transfer of $35 million for FY 10 is recommended. With annual deposits coming from the Tobacco Settlement Fund, the EBRF will continue to accumulate additional reserves and the fund balance is projected to be $15.7 million at the end of FY 11.
2. Transfer of excess balances from special funds. As a short-term, one-time remedy, we propose to transfer excess balances from two special funds into the General Fund. The amounts will be $36 million from the Deposit Beverage Container Special Fund and $9 million from the Wireless Enhanced 911 Special Fund. We are cognizant of the recent decision by the Hawaii Supreme Court on the issue of special fund transfers to the General Fund and assure you that our proposal will proceed based on current law and with advice of the Attorney General.

3. Tax proposals. To support the Administration's goal of making Hawaii's tax system efficient and equitable, a number of proposals will be submitted to tighten up tax laws, improve tax collection and administration, and reduce excessive tax credits. We propose to conform to the federal Internal Revenue Code for accuracy-related penalties, establish a special enforcement section to monitor the cash economy, and tighten Act 221 investment tax credits to conform to the federal tax code. These efforts are expected to add $122 million to our tax collections in the biennium.

THE GENERAL FUND FINANCIAL PLAN

The Multi-Year General Fund Financial Plan is presented in Attachment 1. The General Fund balance was $331.2 million on June 30, 2008 and is estimated to be $42.5 million on June 30, 2009.

The General Fund Six-Year Financial Plan encompassing FB 2009-11 and the four subsequent years shows a positive balance in each fiscal year. Under the constraint of declining revenues, as projected by the Council on October 29, 2008, these positive balances were achieved from the following combination of actions:

- Executive Branch budget reductions and adjustments as proposed;
- Assumed comparable budget reductions from other branches of State government, including the Judiciary, the Legislature and the Office of Hawaiian Affairs; and
- Legislative approval and authorization for Administration proposals with revenue and expenditure impact.

We recognize that further adjustments to the General Fund Financial Plan may be required by new revenue projections and/or by other critical developments in the economy. I look forward to our collaboration as we work together in the coming months to meet this challenge.

I would like to add that the State's disciplined approach in managing its budget has been favorably recognized by all three major credit rating agencies, even in these difficult times. In their latest November 2008 reports, they affirmed the State's G.O. bond ratings of Aa2, AA and AA, respectively. These strong ratings reflect their assessment that Hawaii State government has consistently displayed prudence and discipline in its fiscal management and governance.

THE EXECUTIVE BUDGET RECOMMENDATIONS

THE OPERATING BUDGET

For FB 2009-11, total operating budget requests from all means of financing amount to $11.1 billion in FY 10 and $11.3 billion in FY 11.

Means of Financing	FY 09 Allocation ($million)	FY 10 Request ($million)	FY 11 Request ($million)	FB 2009-11 Request ($million)
General Funds	5,484.9	5,361.3	5,464.0	10,825.3
Special Funds	2,145.8	2,431.9	2,482.3	4,914.2
Federal Funds	1,730.5	1,746.5	1,750.5	3,497.0
Private Contributions	0.4	0.4	0.4	0.8
County Funds	0.7	0.7	0.7	1.4
Trust Funds	76.9	89.6	92.7	182.3
Interdept. Transfers	1,161.2	1,085.1	1,125.1	2,210.2
Revolving Funds	376.0	381.9	380.9	762.8
Other Funds	15.9	12.9	12.9	25.8
Total	10,992.3	11,110.3	11,309.5	22,419.8
Change from FY 09 allocation		$118.0 m	$317.2 m	
Percentage change		1.1%	2.9%	

The "Budget in Brief" (Attachment 2) provides summary details of the Executive Budget. Distribution of the Operating Budget by funding sources and by departments is presented on pages 4 through 9. Highlights of the Operating Budget by departments are presented in the sections that follow, starting on page 17.

General Fund

Total requests from the General Fund amount to $5.36 billion in FY 10 and $5.46 billion in FY 11. These amounts represent a decrease of $123.6 million (-2.3%) in the first year and $20.9 million (-0.4%) in the second year over the current FY 09 allocation level.

It should be noted that the general fund budget bases for FY 10 and FY 11 were projected (as of June 30, 2008) to be at higher levels ($5.57 billion and $5.65 billion, respectively) due to anticipated increases in operating expenses. Therefore, when compared to these base levels, the proposed budget recommendations represent a reduction of $209.3 million (-3.8%) in FY 10 and $186.1 million (-3.3%) in FY 11.

Change in Positions

The Executive Budget requests a significant change in the number of permanent and temporary positions from all means of financing.

	Total FY 10	Permanent	Temporary
Total net change in positions	(479.42)	(185.92)	(293.50)
By means of financing:			
General Funds	(578.72)	(282.97)	(295.75)
Special Funds	86.30	76.30	10.00
Federal Funds	(0.50)	8.75	(9.25)
Trust Funds	.....	3.00	(3.00)
Interdept. Transfers	(1.00)	0.50	(1.50)
Revolving Funds	14.50	8.50	6.00
Other Funds	.....	.....	.....

The request for FY 11 changes with an additional 16 permanent positions from special funds.

The biennium budget proposes a reduction of 579 general funded positions; among these, 283 positions are permanent and 296 are temporary. The reductions are mainly from vacant positions, except for 240 positions in the DOE. According to the DOE, no classroom teaching position is affected and the incumbents are expected to be assigned to other programs within the Department.

Changes in positions funded from non-general fund sources reflect a net increase of 99 positions (97 permanent and 2 temporary), including the 64 positions previously paid for from general funds.

THE CAPITAL IMPROVEMENT (CIP) BUDGET

For FB 2009-11, total requests for capital improvements amount to $1.4 billion in FY 10 and $1.6 billion in FY 11, to be funded from the following sources:

Means of Financing	FY 10 Request ($million)	FY 11 Request ($million)	FB 2009-11 Total ($million)
General Funds	.....	.....	.....
Special Funds	112.6	87.4	200.0
G.O. Bonds	443.0	444.3	887.3
G.O. Reimbursable	22.1	45.8	67.9
Revenue Bonds	488.5	785.8	1,274.3
Federal Funds	323.3	138.2	461.5
Private Contributions	4.7	.....	4.7
County Funds	.....	.....	.....
Interdept. Transfers	2.0	.....	2.0
Other Funds	5.6	49.6	55.2
Total	1,401.8	1,551.1	2,952.9

Of these amounts, the request for G.O. bonds, including reimbursable issues, is $465.1 million in FY 10 and $490.0 million in FY 11. Distribution of the CIP Budget by funding sources and by departments is presented on pages 10 through 15 of the "Budget in Brief." Highlights of the CIP program by departments are presented in the sections that follow, starting on page 17.

THE MANDATORY TAX REFUND/CREDIT

Section 6 of Article VII of the Hawaii State Constitution provides for a mandatory tax refund or tax credit if the general fund balance exceeds 5% of general fund revenues at the end of two succeeding fiscal years. For FYs 07 and 08, the ratios were 9.6% and 6.3%, respectively, and thus met the constitutional criteria. The Legislature will need to consider the enactment of legislation in this 2009 Session to comply with the mandatory tax refund/credit as stipulated by the State Constitution.

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 10 and FY 11.

For the Executive Branch, total proposed appropriations from the General Fund (which include the Executive Budget for FB 2009-11 and other specific appropriation measures to be submitted) are also within the Executive Branch's appropriation ceilings for both FY 10 and FY 11.

A summary statement on the General Fund Expenditure Ceiling and Executive Branch Appropriation Ceiling is included in Attachment 3.

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 4.

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 2009 Session to address issues related to the Executive Budget and the General Fund Financial Plan.

Attachments

Attachment 1

MULTI-YEAR FINANCIAL SUMMARY
GENERAL FUND
FISCAL YEARS 08 - 15
(in millions of dollars)

	Actual* FY 08	Estimated FY 09	Estimated FY 10	Estimated FY 11	Estimated FY 12	Estimated FY 13	Estimated FY 14	Estimated FY 15
REVENUES:								
Executive Branch:								
Tax revenues	4,640.8	4,618.7	4,780.3	4,995.4	5,260.2	5,575.8	5,938.2	6,324.2
Nontax revenues	569.8	509.4	504.8	517.4	520.4	529.1	532.0	532.0
Judicial Branch revenues	34.2	32.7	33.2	33.7	34.2	34.8	34.8	34.8
Other		46.4	137.4	76.5	74.7	58.7	49.7	49.7
TOTAL REVENUES	5,244.8	5,207.2	5,455.7	5,623.0	5,889.6	6,198.4	6,554.7	6,940.6
EXPENDITURES								
Executive Branch:								
Operating	5,185.8	5,132.6	5,361.3	5,464.0	5,741.2	5,875.3	5,964.2	6,065.0
CIP	50.0	-						
Specific appropriations	206.3	237.2	9.5	9.2	9.3	9.3	9.3	9.3
Sub-total	5,442.1	5,369.8	5,370.8	5,473.3	5,750.5	5,884.7	5,973.6	6,074.3
Legislative Branch	37.5	37.5	30.5	30.5	30.5	30.5	30.5	30.5
Judicial Branch	143.8	150.4	120.3	120.3	120.3	120.3	120.3	120.3
OHA	3.1	3.1	2.5	2.5	2.5	2.5	2.5	2.5
Counties								
Lapses	(219.6)	(65.0)	(65.0)	(65.0)	(65.0)	(65.0)	(65.0)	(65.0)
TOTAL EXPENDITURES	5,406.9	5,495.9	5,459.1	5,561.6	5,838.9	5,973.0	6,061.9	6,162.6
REVENUES OVER EXPEND.	(162.2)	(288.8)	(3.4)	61.4	50.7	225.4	492.8	777.9
CARRY-OVER BALANCE (DEFICIT)								
Beginning	493.4	331.2	42.5	39.0	100.5	151.2	376.6	869.4
Ending	331.2	42.5	39.0	100.5	151.2	376.6	869.4	1,647.4
Emergency & Budget Reserve Fund	*74.0*	*26.2*	*3.5*	*15.7*	*28.0*	*40.3*	*52.5*	*64.8*

* unaudited

Attachment 3

SUMMARY STATEMENT OF GENERAL FUND EXPENDITURE CEILING AND APPROPRIATIONS

Total State Personal Income (in $ millions)	
Calendar Year 2005	44,112
Calendar Year 2006	47,338
Calendar Year 2007	50,130
Calendar Year 2008*	52,286
Calendar Year 2009*	53,854

State Growth Rate	
Fiscal Year 2009	6.91%
Fiscal Year 2010	5.84%
Fiscal Year 2011	4.40%

* As estimated by the Council on Revenues

All Branches of State Government

	Expenditure Ceiling	General Fund Appropriations	Margin
Fiscal Year 2008		5,626,547,859	
Fiscal Year 2009**	6,173,647,136	5,754,257,341	419,389,795
Fiscal Year 2010**	6,534,024,130	5,539,932,482	994,091,648
Fiscal Year 2011**	6,821,471,504	5,645,716,866	1,175,754,638

Executive Branch

	Appropriation Ceiling	General Fund Appropriations	Margin
Fiscal Year 2008		5,441,548,509	
Fiscal Year 2009		5,580,728,844	
Proposed additional apprns		5,000,000	
Total Fiscal Year 2009	5,817,571,323	5,585,728,844	231,842,479
Fiscal Year 2010**	5,911,787,027	5,378,314,152	533,472,875
Fiscal Year 2011**	5,614,919,075	5,481,016,701	133,902,374

** Includes proposed appropriations

DECLARATION OF FINDINGS

Pursuant to Section 37-71(d)(6) 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 2009-2011 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 2006-2007 and estimated for each fiscal year from fiscal year 2009-2010 to 2012-2013, is as follows:

Fiscal Year	Net General Fund Revenues	Debt Limit
2005-2006	4,904,019,330	
2006-2007	5,122,620,268	
2007-2008	5,222,739,619	
2008-2009	5,143,960,000	940,378,385
2009-2010	5,307,213,000	955,174,726
2010-2011	5,531,702,000	966,557,945
2011-2012	5,803,094,000	985,610,625
2012-2013	(not applicable)	1,026,257,222

For fiscal years 2008-2009, 2009-2010, 2010-2011, 2011-2012 and 2012-2013, respectively, the debt limit is derived by multiplying the average of the net general fund revenues for the three preceding fiscal years by 18 1/2 percent. The net general fund revenues for fiscal years 2005-2006, 2006-2007 and 2007-2008 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, 2008, dated November 21, 2008. The net general fund revenues for fiscal years 2008-2009 to 2011-2012 are estimates, based on general fund revenue estimates made as of September 8, 2008 and October 31, 2008, 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 2027-2028, the total amount of principal and interest on outstanding general obligation bonds are as follows:

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, 2008 is $2,036,600,349. The amount of general obligation bonds proposed in the Multi-Year Program and Financial Plan and Executive Budget for the Period 2009-2015 (Budget Period 2009-2011) (referred to as the "Budget") is $955,155,000 (but 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 $2,980,814,191.

5. Proposed general obligation bond issuance.[1] As reported in the Budget, as it applies to the fiscal period 2008-2009 to 2012-2013, the State proposed to issue $325,000,000 in general obligation bonds during the first half of fiscal year 2008-2009, $225,000,000 in general obligation bonds during the second half of 2008-2009, $275,000,000 in general obligation bonds semi annually during fiscal years 2009-2010 and 2010-2011, $330,000,000 in general obligation bonds during the first half of fiscal year 2011-2012, $340,000,000 in general obligation bonds during the second half of fiscal year 2011-2012, $330,000,000 in general obligation bonds during the first half of fiscal year 2012-2013, and $340,000,000 in general obligation bonds during the second half of fiscal year 2012-2013. It is the practice of the State to issue 20-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 2009-2010, 2010-2011, 2011-2012, and 2012-2013, is $2,990,000,000. The total amount of $2,990,000,000 which is proposed to be issued through fiscal year 2012-2013 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 $2,980,814,191, as reported in paragraph (4). Thus, taking the Budget into account the amount of previously authorized and unissued bonds and bonds proposed versus the amount of bonds which is proposed to be issued by June 30, 2013, 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:

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[1]Bond issuance plan as of July 1, 2008 - In December 2008, the Department sold $100,000,000 of new money Series DN bonds, $101,825,000 of refunding Series DO bonds, and $26,000,000 of new money Series DP bonds.

(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 2009-2010 to fiscal year 2018-2019. For the purpose of this declaration, the assumption is made that one 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 2008-2009, 2009-2010, 2010-2011, 2011-2012 and 2012-2013 are as follows:

Fiscal Year	Total amount of G.O. Bonds not otherwise excluded by Article VII, Section 13 of the State Constitution
2008-2009	4,656,314,012
2009-2010	4,871,774,540
2010-2011	5,078,530,000
2011-2012	5,382,055,000
2012-2013	5,353,580,000

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 VII, Section 13 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. <u>Determination whether the debt limit will be exceeded at the time of issuance</u>. From the foregoing and on the assumption that the bonds identified in paragraph (5) will be issued at interest rate of 6 percent during the remainder of fiscal year 2008-2009 and 6.5 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:

Time of Issue and Amount of Issue to be Counted Against Debt Limit	Debt Limit at Time of Issuance	Greatest Amount & Year of Principal & Interest
1st half FY 2008-2009		
$321,750,000	940,378,385	562,602,502 (2010-2011)
2nd half FY 2008-2009		
$222,750,000	940,378,385	558,179,867 (2009-2010)
1st half FY 2009-2010		
$272,250,000	955,174,726	565,510,627 (2010-2011)
2nd half FY 2009-2010		
$272,250,000	955,174,726	574,358,752 (2010-2011)
1st half FY 2010-2011		
$272,250,000	966,557,945	574,358,752 (2010-2011)
2nd half FY 2010-2011		
$272,250,000	966,557,945	590,538,809 (2012-2013)
1st half FY 2011-2012		
$326,700,000	985,610,625	601,156,559 (2012-2013)
2nd half FY 2011-2012		
$336,600,000	985,610,625	612,096,059 (2012-2013)
1st half FY 2012-2013		
$326,700,000	1,026,257,222	625,953,228 (2014-2015)
2nd half FY 2012-2013		
$336,600,000	1,026,257,222	647,832,228 (2014-2015)

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.

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Director of Finance
State of Hawaii