

JAN 27 2010

A BILL FOR AN ACT

RELATING TO THE ISSUANCE OF PENSION OBLIGATION BONDS.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

1 SECTION 1. The legislature finds that adverse economic
2 times have negatively impacted the employees' retirement system,
3 resulting in investment losses of four and eighteen per cent
4 during fiscal years 2008 and 2009, respectively. Consequently,
5 the unfunded actuarially accrued liability has increased from
6 \$5.2 billion in 2008 to \$6.2 billion in 2009. The unfunded
7 actuarially accrued liability represents the amount the
8 employees' retirement system will be deficient to pay for
9 benefits already earned by active and retired employees and
10 beneficiaries of the system without further employer
11 contributions. The legislature further finds that, to avoid
12 market volatility in the unfunded actuarially accrued liability,
13 investment gains and losses are recognized or "smoothed" over a
14 period of time. Thus, the recent losses will continue to be
15 carried over to the next two to three years, or longer, and will
16 affect the unfunded actuarially accrued liability.



1 The legislature finds that during periods of substantial or
2 prolonged budget deficits, several jurisdictions throughout the
3 country have utilized pension obligation bonds to experience
4 budget relief. That budget relief, depending upon the
5 jurisdiction's applicable laws, has been accomplished either
6 through the reamortization of the unfunded actuarially accrued
7 liability resulting in lower or no payments in the early years
8 and/or longer terms, or funding the employer's normal annual
9 contribution for the current and future fiscal year. The
10 majority of these jurisdictions have experienced interest rate
11 savings, particularly when taxable bond rates are low.

12 The legislature further finds that the issuance of pension
13 obligation bonds to replace all or a portion of the contribution
14 could replace the employer's fluctuating annual unfunded
15 actuarially accrued liability amortization payments with fixed
16 debt service payments at potentially lower interest rates.

17 The purpose of this Act is to authorize the State and
18 counties to issue general obligation bonds to finance employer
19 contributions to the employees' retirement system.

20 SECTION 2. Chapter 39, Hawaii Revised Statutes, is amended
21 by adding a new section to part I to be appropriately designated
22 and to read as follows:



1 "§39- General obligation bonds; pension obligation
2 funding; authorized. (a) Notwithstanding the authority to
3 issue general obligation bonds under section 39-1, and the
4 application of proceeds therefrom pursuant to section 39-2, the
5 director of finance, with the approval of the governor, may
6 issue in accordance with the limitations provided in subsection
7 (b), general obligation bonds of the State issued for the
8 purpose of funding the State's contributions to the employees'
9 retirement system pursuant to section 88-123, in an amount not
10 to exceed the total amount of all general obligation bonds
11 authorized to be issued by acts of the legislature and any
12 amendments thereto in effect at the date of issue of the bonds,
13 and shall not exceed the debt limitation prescribed by the
14 Constitution of the State of Hawaii. Except as otherwise
15 specifically provided in the act or acts authorizing the
16 issuance thereof, the bonds shall be issued in the manner and
17 upon the terms provided in this part and shall be known as
18 "pension obligation bonds".

19 (b) For purposes of subsection (a), the director of
20 finance shall consider:

21 (1) Security for the bonds, rating agency perspectives,
22 structure of savings, impact of lump sum funding,



1 asset allocation review, redemption features, high
2 cost of call option, and bond insurance; and
3 (2) Risk factors, including flexibility risk, reinvestment
4 risk, and funding discipline risk."

5 SECTION 3. Chapter 47, Hawaii Revised Statutes, is amended
6 by adding a new section to part I to be appropriately designated
7 and to read as follows:

8 "§47- General obligation bonds; pension obligation
9 funding; authorized. (a) Notwithstanding the authority to
10 issue general obligation bonds under section 47-3, and the
11 application of proceeds therefrom pursuant to section 47-5, the
12 director of finance may issue in accordance with the limitations
13 provided in subsection (b), general obligation bonds issued for
14 the purpose of funding a county's contributions to the
15 employees' retirement system pursuant to section 88-123, in an
16 amount not to exceed the total amount of all general obligation
17 bonds authorized to be issued by acts of the county's governing
18 body and any amendments thereto in effect at the date of issue
19 of the bonds, and shall not exceed the debt limitation
20 prescribed by the Constitution of the State of Hawaii. Except
21 as otherwise specifically provided in the act or acts
22 authorizing the issuance thereof, the bonds shall be issued in



1 the manner and upon the terms provided in this part and shall be
2 known as "pension obligation bonds".

3 (b) For purposes of subsection (a), the director of
4 finance shall consider:

5 (1) Security for the bonds, rating agency perspectives,
6 structure of savings, impact of lump sum funding,
7 asset allocation review, redemption features, high
8 cost of call option, and municipal bond insurance; and

9 (2) Risk factors, including flexibility risk, reinvestment
10 risk, and funding discipline risk."

11 SECTION 4. The director of finance is authorized to issue
12 general obligation bonds in the sum of \$ or so much
13 thereof as may be necessary and the same sum or so much thereof
14 as may be necessary is appropriated for fiscal year 2010-2011
15 for the purpose of funding the State's employer contribution to
16 the employees' retirement system.

17 SECTION 5. The appropriation made for the pension
18 obligation funding authorized by this Act shall not lapse at the
19 end of the fiscal biennium for which the appropriation is made;
20 provided that all moneys from the appropriation unencumbered as
21 of June 30, 2012, shall lapse as of that date.

22 SECTION 6. New statutory material is underscored.



1 SECTION 7. This Act shall take effect on July 1, 2010.

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INTRODUCED BY: *S.S.T.J.*

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Report Title:

ERS; Pension Obligation Bonds; Authorized; Appropriation

Description:

Authorizes the issuance of pension obligation bonds to fund the employer contributions of the State and counties to the employees' retirement system to reduce unfunded actuarial accrued liability. Appropriates funds for payment of the employers' contribution to the employees' retirement system.

The summary description of legislation appearing on this page is for informational purposes only and is not legislation or evidence of legislative intent.

