



GOV. MSG. NO. 1276

EXECUTIVE CHAMBERS
HONOLULU

NEIL ABERCROMBIE
GOVERNOR

June 27, 2011

The Honorable Shan Tsutsui, President
and Members of the Senate
Twenty-Sixth State Legislature
State Capitol, Room 409
Honolulu, Hawaii 96813

The Honorable Calvin Say, Speaker
and Members of the House
Twenty-Sixth State Legislature
State Capitol, Room 431
Honolulu, Hawaii 96813

Dear President Tsutsui, Speaker Say and Members of the Legislature:

This is to inform you that on June 27, 2011, the following bill was signed into law:

SB163 SD1 HD1 CD1

RELATING TO STATE BONDS.
Act 172 (11)

Aloha
Sincerely,
Neil Abercrombie

NEIL ABERCROMBIE
Governor, State of Hawaii

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 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 2010-2011
 7 and estimated for each fiscal year from 2011-2012 to
 8 2014-2015, is as follows:

9	Fiscal	Net General	
10	<u>Year</u>	<u>Fund Revenues</u>	<u>Debt Limit</u>
11			
12	2007-2008	\$5,222,739,619	
13	2008-2009	5,034,984,956	
14	2009-2010	4,841,194,658	
15	2010-2011	4,842,386,000	\$ 931,100,019
16	2011-2012	5,288,757,000	907,644,880
17	2012-2013	5,586,164,000	923,294,156
18	2013-2014	5,892,854,000	969,233,932
19	2014-2015	(not applicable)	1,034,012,792
20			

21 For fiscal years 2010-2011, 2011-2012, 2012-2013,
 22 2013-2014, and 2014-2015, respectively, the debt limit
 23 is derived by multiplying the average of the net
 24 general fund revenues for the three preceding fiscal
 25 years by eighteen and one-half per cent. The net
 26 general fund revenues for fiscal years 2007-2008,
 27 2008-2009, and 2009-2010 are actual, as certified by
 28 the director of finance in the Statement of the Debt



1 Limit of the State of Hawaii as of July 1, 2010, dated
2 November 23, 2010. The net general fund revenues for
3 fiscal years 2010-2011 to 2013-2014 are estimates,
4 based on general fund revenue estimates made as of
5 March 15, 2011 and April 8, 2011, by the council on
6 revenues, the body assigned by article VII, section 7
7 of the state constitution to make such estimates, and
8 based on estimates made by the department of budget
9 and finance of those receipts which cannot be included
10 as general fund revenues for the purpose of
11 calculating the debt limit, all of which estimates the
12 legislature finds to be reasonable.

13 (3) Principal and interest on outstanding bonds applicable
14 to the debt limit.

15 (A) According to the department of budget and
16 finance, the total amount of principal and
17 interest on outstanding general obligation bonds,
18 after the exclusions permitted by article VII,
19 section 13 of the state constitution, for
20 determining the power of the State to issue
21 general obligation bonds within the debt limit as



1 of April 1, 2011, is as follows for fiscal year
2 2011-2012 to fiscal year 2017-2018:

3	Fiscal	Principal
4	<u>Year</u>	<u>and Interest</u>
5		
6	2011-2012	\$507,066,146
7	2012-2013	579,212,955
8	2013-2014	578,018,611
9	2014-2015	610,254,531
10	2015-2016	563,610,553
11	2016-2017	576,315,435
12	2017-2018	504,933,484

13 The department of budget and finance further
14 reports that the amount of principal and interest
15 on outstanding bonds applicable to the debt limit
16 generally continues to decline each year from
17 fiscal year 2018-2019 to fiscal year 2029-2030
18 when the final installment of \$45,711,073 shall
19 be due and payable.

20 (B) The department of budget and finance further
21 reports that the outstanding principal amount of
22 bonds constituting instruments of indebtedness
23 under which the State may incur a contingent
24 liability as a guarantor is \$183,500,000, all or
25 part of which is excludable in determining the
26 power of the State to issue general obligation

1 bonds, pursuant to article VII, section 13 of the
2 state constitution.

3 (4) Amount of authorized and unissued general obligation
4 bonds and guaranties and proposed bonds and
5 guaranties.

6 (A) As calculated from the state comptroller's bond
7 fund report as of February 28, 2011, adjusted
8 for:

9 (i) Appropriations to be funded by general
10 obligation bonds or reimbursable general
11 obligation bonds as provided in House Bill
12 No. 200, H.D. 1, S.D. 1, C.D. 1 (the General
13 Appropriations Act of 2011);

14 (ii) Lapses as provided in House Bill No. 200,
15 H.D. 1, S.D. 1, C.D. 1 (the General
16 Appropriations Act of 2011);

17 (iii) Appropriations to be funded by general
18 obligation bonds or reimbursable general
19 obligation bonds as provided in House Bill
20 No. 300, H.D. 2, S.D. 2, C.D. 1 (the
21 Judiciary Appropriations Act of 2011); and

1 (iv) Lapses as provided in House Bill No. 300,
2 H.D. 2, S.D. 2, C.D. 1 (the Judiciary
3 Appropriations Act of 2011);

4 the total amount of authorized but unissued
5 general obligation bonds is \$1,394,633,973. The
6 total amount of general obligation bonds
7 authorized in this Act is \$1,476,137,000. The
8 total amount of general obligation bonds
9 previously authorized and unissued, as adjusted,
10 and the general obligation bonds authorized in
11 this Act is \$2,870,770,973.

12 (B) As reported by the department of budget and
13 finance the outstanding principal amount of bonds
14 constituting instruments of indebtedness under
15 which the State may incur a contingent liability
16 as a guarantor is \$183,500,000, all or part of
17 which is excludable in determining the power of
18 the State to issue general obligation bonds,
19 pursuant to article VII, section 13 of the state
20 constitution.

21 (5) Proposed general obligation bond issuance. As
22 reported therein for the fiscal years 2011-2012,



1 2012-2013, 2013-2014, and 2014-2015 the State proposed
2 to issue \$375,000,000 in general obligation bonds
3 during the first half of fiscal year 2011-2012,
4 \$375,000,000 in general obligation bonds during the
5 second half of fiscal year 2011-2012, \$375,000,000 in
6 general obligation bonds during the first half of
7 fiscal year 2012-2013, \$375,000,000 in general
8 obligation bonds during the second half of fiscal year
9 2012-2013, \$350,000,000 in general obligation bonds
10 during the first half of fiscal year 2013-2014,
11 \$350,000,000 in general obligation bonds during the
12 second half of fiscal year 2013-2014, \$350,000,000 in
13 general obligation bonds during the first half of
14 fiscal year 2014-2015, and \$325,000,000 in general
15 obligation bonds during the second half of fiscal year
16 2014-2015. It has been the practice of the State to
17 issue twenty-year serial bonds with principal
18 repayments beginning the fifth year, the bonds payable
19 in substantially equal annual installments of
20 principal and interest payment with interest payments
21 commencing six months from the date of issuance and
22 being paid semi-annually thereafter. It is assumed



1 that this practice will continue to be applied to the
2 bonds that are proposed to be issued.

3 (6) Sufficiency of proposed general obligation bond
4 issuance to meet the requirements of authorized and
5 unissued bonds, as adjusted, and bonds authorized by
6 this Act. From the schedule reported in paragraph
7 (5), the total amount of general obligation bonds that
8 the State proposes to issue during the fiscal years
9 2011-2012 to 2013-2014 is \$2,200,000,000. An
10 additional \$675,000,000 is proposed to be issued in
11 fiscal year 2014-2015. The total amount of
12 \$2,200,000,000 which is proposed to be issued through
13 fiscal year 2013-2014 is sufficient to meet the
14 requirements of the authorized and unissued bonds, as
15 adjusted, the total amount of which is \$2,870,770,973
16 reported in paragraph (4), except for \$670,770,973.
17 It is assumed that the appropriations to which an
18 additional \$670,770,973 in bond issuance needs to be
19 applied will have been encumbered as of June 30, 2014.
20 The \$675,000,000 which is proposed to be issued in
21 fiscal year 2014-2015 will be sufficient to meet the
22 requirements of the June 30, 2014, encumbrances in the

1 amount of \$670,770,973. The amount of assumed
2 encumbrances as of June 30, 2014, is reasonable and
3 conservative, based upon an inspection of June 30
4 encumbrances of the general obligation bond fund as
5 reported by the state comptroller. Thus, taking into
6 account the amount of authorized and unissued bonds,
7 as adjusted, and the bonds authorized by this Act
8 versus the amount of bonds proposed to be issued by
9 June 30, 2014, and the amount of June 30, 2014,
10 encumbrances versus the amount of bonds proposed to be
11 issued in fiscal year 2014-2015, the legislature finds
12 that in the aggregate, the amount of bonds proposed to
13 be issued is sufficient to meet the requirements of
14 all authorized and unissued bonds and the bonds
15 authorized by this Act.

16 (7) Bonds excludable in determining the power of the State
17 to issue bonds. As noted in paragraph (1), certain
18 bonds are excludable in determining the power of the
19 State to issue general obligation bonds.

20 (A) General obligation reimbursable bonds can be
21 excluded under certain conditions. It is not
22 possible to make a conclusive determination as to



1 the amount of reimbursable bonds which are
2 excludable from the amount of each proposed bond
3 issued because:

4 (i) It is not known exactly when projects for
5 which reimbursable bonds have been
6 authorized in prior acts and in this Act
7 will be implemented and will require the
8 application of proceeds from a particular
9 bond issue; and

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

12 However, the legislature notes that with respect
13 to the principal and interest on outstanding
14 general obligation bonds, according to the
15 department of budget and finance, the average
16 proportion of principal and interest which is
17 excludable each year from the calculation against
18 the debt limit is 1.41 per cent for the ten years
19 from fiscal year 2010-2011 to fiscal year 2019-
20 2020. For the purpose of this declaration, the
21 assumption is made that one per cent of each bond
22 issue shall be excludable from the debt limit, an



1 assumption which the legislature finds to be
2 reasonable and conservative.

3 (B) Bonds constituting instruments of indebtedness
4 under which the State incurs a contingent
5 liability as a guarantor may be excluded but only
6 to the extent the principal amount of such
7 guaranties does not exceed seven per cent of the
8 principal amount of outstanding general
9 obligation bonds not otherwise excluded under
10 subparagraph (A) of this paragraph (7); provided
11 that the State shall establish and maintain a
12 reserve in an amount in reasonable proportion to
13 the outstanding loans guaranteed by the State as
14 provided by law. According to the department of
15 budget and finance and the assumptions presented
16 herein, the total principal amount of outstanding
17 general obligation bonds and general obligation
18 bonds proposed to be issued, which are not
19 otherwise excluded under article VII, section 13
20 of the state constitution for the fiscal years
21 2011-2012, 2012-2013, 2013-2014, and 2014-2015
22 are as follows:



Fiscal year	Total amount of General Obligation Bonds not otherwise excluded by Article VII, Section 13 of the State Constitution
2010-2011	\$5,126,030,000
2011-2012	5,868,530,000
2012-2013	6,611,030,000
2013-2014	7,304,030,000
2014-2015	7,972,280,000

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 per cent of the average amount set forth in the last column of the above table and for which reserve funds have been or shall have been established as heretofore provided, may 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



1 assumed in conformity with fiscal conservatism and
2 prudence, that all guaranties not otherwise excluded
3 pursuant to article VII, section 13 of the state
4 constitution shall become due and payable in the same
5 fiscal year in which the greatest amount of principal
6 and interest on general obligation bonds, after
7 exclusions, occurs. Thus, based on such assumptions
8 and on the determination in paragraph (8), all of the
9 outstanding guaranties can be excluded.

10 (8) Determination whether the debt limit will be exceeded
11 at the time of issuance. From the foregoing and on
12 the assumption that all of the bonds identified in
13 paragraph (5) will be issued at a net average interest
14 rate, after giving effect to federal subsidy payments,
15 if any, received by the State under and pursuant to
16 federal laws as may from time to time be in effect,
17 not to exceed 5.25 per cent, it can be determined from
18 the following schedule that the bonds which are
19 proposed to be issued, which include all authorized
20 and unissued bonds previously authorized, as adjusted,
21 general obligation bonds, and instruments of
22 indebtedness under which the State incurs a contingent



1 liability as a guarantor authorized in this Act, will
2 not cause the debt limit to be exceeded at the time of
3 such issuance:

4	5	6	7	8	9
10	11	12	13	14	15
16	17	18	19	20	21
22	23	24	25	26	27
28	29	30	31	32	33
	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>		
1 st	half FY 2011-2012 \$371,250,000	907,644,880	637,124,450 (2014-2015)		
2 nd	half FY 2011-2012 \$371,250,000	907,644,880	656,615,075 (2014-2015)		
1 st	half FY 2012-2013 \$371,250,000	923,294,156	682,509,330 (2016-2017)		
2 nd	half FY 2012-2013 \$371,250,000	923,294,156	716,054,955 (2016-2017)		
1 st	half FY 2013-2014 \$346,500,000	969,233,932	734,246,205 (2016-2017)		
2 nd	half FY 2013-2014 \$346,500,000	969,233,932	752,437,455 (2016-2017)		
1 st	half FY 2014-2015 \$346,500,000	1,034,012,792	770,628,705 (2016-2017)		
2 nd	half FY 2014-2015 \$321,750,000	1,034,012,792	787,520,580 (2016-2017)		

(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



1 guaranties, will not cause the debt limit to be
2 exceeded at the time of issuance.

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

12 SECTION 3. Authorization for issuance of general
13 obligation bonds. General obligation bonds may be issued as
14 provided by law in an amount that may be necessary to finance
15 projects authorized in House Bill No. 200, H.D. 1, S.D. 1, C.D.
16 1 (the General Appropriations Act of 2011) and House Bill No.
17 300, H.D. 2, S.D. 2, C.D. 1 (the Judiciary Appropriations Act of
18 2011), passed by this regular session of 2011, and designated to
19 be financed from the general obligation bond fund and from the
20 general obligation bond fund with debt service cost to be paid
21 from special funds; provided that the sum total of general
22 obligation bonds so issued shall not exceed \$1,476,137,000.



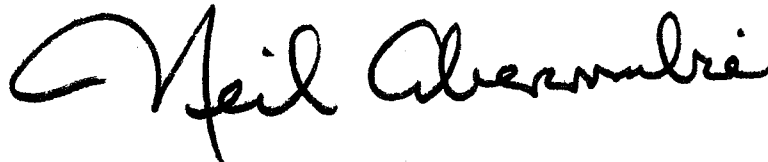
1 Any law to the contrary notwithstanding, general obligation
2 bonds may be issued from time to time in accordance with section
3 39-16, Hawaii Revised Statutes, in such principal amount as may
4 be required to refund any general obligation bonds of the State
5 of Hawaii heretofore or hereafter issued 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 upon its approval.

APPROVED this 27 day of JUN, 2011



GOVERNOR OF THE STATE OF HAWAII