TESTIMONY BY KALBERT K. YOUNG
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TO THE SENATE COMMITTEE ON WAYS AND MEANS AND
THE HOUSE COMMITTEE ON FINANCE

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Chairs Ige and Oshiro and Members of the Committees:

My name is Kalbert Young, the Interim Director of Finance. This past month has been very interesting, to say the least. In addition to a crash course in learning the intricacies of the state budget, it has been a worldwind exposure to just a few of the myriad of issues and fiscal challenges facing the State of Hawaii.

As I appear before you today, we recognize that you are expecting answers to questions about the state budget and financial plan. However, at this point in time, we ask for your patience and indulgence as the Abercrombie Administration works through the process of developing a revised budget and balanced financial plan which requires information gathering, analysis, dialogue and open communications among all affected parties.

We are approaching the budget and related issues in a phased manner, although many aspects of the various phases overlap. The first phase involves taking stock of the current situation of the State and respective departments. This entails getting a true picture of our costs "if nothing changes" and identifying where there are significant gaps in the infrastructure supporting the delivery of state services.

In the first few days on the job, it quickly became apparent that the layoffs, severe cuts and strict attrition policy over the last few years have taken a heavy toll on the ability of State agencies to sustain delivery of core services to the public. It is quite clear that we will need to selectively restore some of the previous budget cuts in order to address critical program deficiencies. It was also brought to our attention that there are significant funding shortfalls in the Temporary Assistance to Needy Families program and increased funding requirements for the Medicaid program due to a recent court decision on benefits for Compact for Free Association clients.

The second phase of the process involves reassessing the base budget and “wish list” items prepared under the previous administration. This reassessment will focus on addressing critical program deficiencies, maximizing non-general fund opportunities, and supporting administration and departmental priorities. To guide this phase, budget preparation instructions will be issued later this week for the Abercrombie Administration budget.

An additional aspect of this reassessment will be to look closely at certain big ticket programs whose costs are escalating to determine what can be done to control costs in order to ensure that the programs are sustainable over the long term. This reassessment will also include identifying revenue enhancement possibilities.

The final phase of the process involves reviewing and evaluating the departmental budget requests that will be incorporated into the Administration’s budget as well as any proposed administration bills. The planned timetable for submitting the budget messages representing the Administration’s budget is early to mid-March. We realize that this submission will be later than normal in the legislative timetable; however, we need adequate time for the new directors to come up to speed on their respective department budgets and for the Administration to properly evaluate and prioritize the requests.

BASE EXECUTIVE BUDGET

I will be turning now to the base Executive budget and general fund financial plan transmitted to the Legislature on December 20th.

The Operating Budget

The base Executive budget was prepared by the previous administration and provides for continuation of State services at their current level. Each department was given an operating base budget ceiling, equivalent to their FY 2011 appropriation, minus non-recurring costs and federal stimulus funds, plus restored furlough savings and collective bargaining amounts (University of Hawaii Professional Assembly only) and restored State Fiscal Stabilization Fund amounts (Department of Education and University of Hawaii), as applicable. The departments were tasked with the review of their base budget to ensure the following:

1. Unfunded positions were deleted or funded.
2. Unbudgeted positions were budgeted, if appropriate.
3. Large unidentified line item budget adjustments were eliminated.
4. Budgeted amounts were in the appropriate cost elements (i.e., personal services, other current expenses, equipment and motor vehicles) and programs.

The intent of making these adjustments was to establish a transparent and accountable base budget which is representative of actual expenditures.

For FB 2011-13, the budget includes $10.867 billion in FY 2012 and $11.082 billion in FY 2013 from all means of financing for operating costs. This represents an increase of 6% and 8%, respectively, over the current level. Of these amounts, the request for general funds is $5.568 billion in FY 2012 and $5.754 billion in FY 2013, resulting in increases of 13% and 16%, respectively. The major increases in the general fund operating budget are as follows:

- $248.2 million in FY 2012 and $288.3 million in FY 2013 for Medicaid health care payments;
- $158.8 million in FY 2012 and FY 2013 due to expiration of furlough savings;
- $71.2 million in FY 2012 and $175.4 million in FY 2013 for general obligation bond debt service;
- $70.0 million in FY 2012 and $62.5 million in FY 2013 for Employees' Retirement System and FICA contributions;
- $60.4 million in FY 2012 and FY 2013 due to expiration of the federal State Fiscal Stabilization Fund program; and
- $7.9 million in FY 2012 and $49.7 million in FY 2013 for employee and retiree health benefits premiums.

The Capital Improvements Program Budget

For the Capital Improvements Program budget, a total of $483.6 million in FY 2012 and $486.2 million in FY 2013 has been recommended. Of these amounts, the request for general obligation bonds is $202.2 million and $201.9 million, respectively. The base Executive Capital Improvements Program budget provides funds to address the backlog of major repair and maintenance projects, to improve energy efficiency, and to improve transportation facilities and highways.

Major general obligation bond funded Capital Improvements Program requests include:

- $7.3 million in FY 2012 and $8.0 million in FY 2013 for safety improvements for irrigation system reservoirs under the Department of Agriculture;
- $5.0 million in FY 2012 and FY 2013 for maintenance of State facilities;
- $6.4 million in FY 2012 and $6.5 million in FY 2013 for health and safety improvements at Aloha Stadium;
- $250,000 in FY 2012 and $1.3 million in FY 2013 ($3.2 million and $5.3 million, respectively, in federal funds also requested) for energy savings improvements and renewable energy projects for Department of Defense facilities;
- $5.0 million in FY 2012 and FY 2013 for health and safety improvements for Hawaii Health Systems Corporation's facilities;
- $5.0 million in FY 2012 and $4.0 million in FY 2013 for improvements to Palolo Valley Homes;
- $5.0 million in FY 2012 and FY 2013 for improvements at various correctional facilities; and
- $35.0 million in FY 2012 and $4.0 million in FY 2013 for health, safety and code improvements and $31.0 million in FY 2013 for capital renewal and deferred maintenance at UH campuses, statewide.

Major Capital Improvements Program requests funded by other means of financing include:

- $10.0 million in special funds in FY 2012 and FY 2013 for school building improvements and $5.8 million in special funds in FY 2012 and FY 2013 for electrical and infrastructure improvements at Department of Education schools statewide;

- $6.4 million in other funds and $15.0 million in federal funds in FY 2012 for improvements to Runway 4R at Honolulu International Airport;
- $1.3 million in revenue bond funds and $3.8 million in federal funds in FY 2012 and $37.5 million federal funds and $16.0 million in other funds in FY 2013 for Taxiway Z structural improvements also at Honolulu International Airport; and
- $4.2 million in revenue bond funds and $16.8 million in federal funds for rockfall protection and slope stabilization and $1.9 million in revenue bond funds and $7.0 million in federal funds for lighting replacement at various highway locations statewide in FY 2013.

For a more in-depth summary of what is contained in the base Executive budget, please refer to "The FB 2011-13 Executive Biennium Budget, Budget in Brief" that is available on Budget and Finance's website at http://hawaii.gov/budget/bienniumbudget/budgetinbrief.

GENERAL FUND FINANCIAL PLAN

The general fund financial plan shown in Attachment 1 is based on the Council on Revenues' September 10, 2010 general fund projections. The tax revenue projections provide for a 2 percent growth for FY 2011 over FY 2010, a 10% growth for FY 2012, and a 6.0% growth annually for FYs 2013-17. The 2.0% growth in FY 2011 primarily reflects the delay in payment of individual tax refunds during FY 2010, while the 10% increase in FY 2012 is the resulting increase making up the difference of a projected 12% growth over the two-year period from FY 2010 to FY 2012.

On the expenditure side, the expenditure amounts reflect the base Executive's, Judiciary's and Office of Hawaiian Affairs' budget requests, and continuation of FY 2010 funding levels for the Legislature. Also included are "if nothing changes" estimates and place holders for certain additional funding requirements that are not included in the base Executive budget. These estimates and place holders were based on the best available information at that time.

Additional Funding Requirements Not Included in the Base Executive Budget

The Administration will be requesting emergency appropriations to address the following FY 2011 funding shortfalls which require immediate attention:

1. Temporary Assistance for Needy Families program deficit;
2. Medicaid program deficit;
3. Increased employer contributions for Hawaii Employer-Union Health Benefits Trust Fund health benefits pursuant to the December 23, 2010 agreement between the State and Counties, and the Hawaii Government Employees Association, United Public Workers, Hawaii State Teachers Association, and University of Hawaii Professional Assembly;
4. Operating requirements of the Office of the Governor and Office of the Lieutenant Governor; and
5. Operating requirements of the Reapportionment Commission, which convenes on or before March 1, 2011 as required by Section 2, Article IV of the Hawaii State Constitution.

Because these funding requirements are for FY 2011, they are not included in the Executive budget request; however, they are accounted for in the general fund financial plan.

Additionally, placeholders have been included in the general fund financial plan for the following high priority requirements for FB 2011-13 which were not included in the base Executive budget request:

1. Temporary Assistance for Needy Families program deficit;
2. Increased Medicaid requirements due to the recent court decision on Compact for Free Association client benefits;
3. Increased employer contributions for Hawaii Employer-Union Health Benefits Trust Fund health benefits pursuant to the December 23, 2010 agreement;
4. High priority program initiatives of the Abercrombie Administration; and
5. Repayment of deferrals of Employees' Retirement System and Hawaii Employer-Union Health Benefits Trust Fund contributions.

It should be noted that the Employees' Retirement System recently issued its actuarial evaluation report for FY 2010 and a 5-year actuarial experience study. The two reports indicate that the Employees' Retirement System is severely underfunded and immediate steps need to be taken to address the situation. The resulting cost increases of such corrective actions have not yet been factored into the general fund financial plan.

Potential Budget Shortfall

As can be seen, there will be significant deficits in the general fund financial plan for the periods from FY 2011 through FY 2015 if corrective actions are not taken. At a minimum, revenue and/or expenditure adjustments of $71.6 million in FY 2011, $410.1 million in FY 2012, $361.8 million in FY 2013, $135.5 million in FY 2014, and $4.4 million in FY 2015 are needed to maintain a $25 million positive ending balance in each of those fiscal years.

The corrective adjustment amounts are significant and represent 7% of projected expenditures in FY 2012 and 6% in FY 2013. As explained previously, the Administration is actively working to close the budget shortfall and will be submitting the necessary corrective actions through budget messages and bills during the course of the 2011 Legislative Session.

December 29th Council on Revenues General Fund Projection Revisions

The Council on Revenues met last Wednesday, December 29th, and revised its general fund tax revenue projection for FY 2011 upwards from a 2.0% growth to 3.0% and made no revisions to the growth rates for the subsequent fiscal years. The impact of this increase and slight revisions to its non-tax revenue projections are shown in Attachment 2. The revised projections amount to an increase of $45.6 million in FY 2011, $49.1 million in FY 2012, and $51.9 million in FY 2013.

It should be noted that in order to reach a 3.0% growth in FY 2011, general fund tax collections must average 7.0% for the period from December 2010 to June 2011. This compares to an average 5.5% growth to reach the 2.0% growth previously projected in September 2010.

The revised Council on Revenues projections will help in closing the budget shortfall. However, the State still has significant challenges and issues to deal with in the near term, and very significant fiscal and financial problems to address in the longer term.

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 2012 and FY 2013.

For the Executive Branch, total proposed appropriations from the General Fund (which include the Executive Budget for FB 2011-13 and other specific appropriation measures to be submitted) exceed the appropriation ceiling by $529.3 million (or 10.5%) in FY 2012 and by $96.9 million (or 1.7% in FY 2013). The reasons for these excesses are due to the restoration of furlough savings adjustments and funds supplanted by the federal State Fiscal Stabilization Fund program, and increases in Medicaid, debt service and fringe benefit costs.

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 general obligation bonds that may be issued by the State. 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 general obligation bond debt limit is included in Attachment 4.

In closing, I want to thank you for the opportunity to make this presentation. The Abercrombie Administration will work with you on a continual basis during the 2011 Session in revising the base Executive budget and general fund financial plan and addressing the potential budget shortfall.

Attachments

MULTI-YEAR FINANCIAL SUMMARY
GENERAL FUND
FISCAL YEARS 10 - 17
(in millions of dollars)

	Actual* FY 10	Estimated FY 11	Estimated FY 12	Estimated FY 13	Estimated FY 14	Estimated FY 15	Estimated FY 16	Estimated FY 17
REVENUES:								
Executive Branch:								
Tax revenues	4,363.4	4,451.9	4,897.0	5,190.9	5,502.3	5,832.4	6,182.4	6,553.3
Nontax revenues	453.2	512.1	495.6	502.4	504.4	506.6	493.8	494.2
Judicial Branch revenues	35.7	36.2	36.8	37.4	38.0	38.7	39.4	40.1
Other	-	75.2	25.2	38.2	38.5	40.0	29.7	29.4
TOTAL REVENUES	4,852.4	5,075.3	5,454.6	5,768.9	6,083.2	6,417.8	6,745.4	7,117.0
EXPENDITURES								
Executive Branch:								
Operating	5,144.2	4,943.3	5,568.2	5,754.0	5,905.0	6,108.4	6,225.6	6,400.2
Specific appropriations	64.0	5.3	5.0	5.0	5.0	5.0	5.0	5.0
Other	-	50.8	180.7	258.5	195.5	195.5	195.5	195.5
Sub-total	5,208.1	4,999.3	5,753.9	6,017.5	6,105.5	6,308.9	6,426.1	6,600.7
Legislative Branch	32.2	32.2	32.2	32.2	32.2	32.2	32.2	32.2
Judicial Branch	139.0	130.7	141.1	143.6	143.6	143.6	143.6	143.6
OHA	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Lapses	(544.0)	(65.0)	(65.0)	(65.0)	(65.0)	(65.0)	(65.0)	(65.0)
TOTAL EXPENDITURES	4,837.8	5,099.7	5,864.7	6,130.8	6,218.7	6,422.2	6,539.4	6,714.0
REV. OVER (UNDER) EXPEND.	14.6	(24.4)	(410.1)	(361.8)	(135.5)	(4.4)	206.1	403.0
CARRY-OVER (DEFICIT)								
Beginning	(36.8)	(22.2)	(46.6)	(456.7)	(818.5)	(954.0)	(958.4)	(752.4)
Ending	(22.2)	(46.6)	(456.7)	(818.5)	(954.0)	(958.4)	(752.4)	(349.4)
Adjustments needed to balance fin. plan		(71.6)	(410.1)	(361.8)	(135.5)	(4.4)	-	-
Ending Balance		25.0	25.0	25.0	25.0	25.0	231.0	634.0
Emergency & Budget Reserve Fund	*62.5*	*46.3*	*53.8*	*61.3*	*68.8*	*76.3*	*83.8*	*91.4*

* unaudited

Comparison Between Council on Revenues' December 29, 2010 meeting and September 10, 2010 Projections
General Fund
(in millions of dollars)

	FY 10	FY 11	FY 12	FY 13	FY 14	FY 15	FY 16	FY 17
Tax revenues								
	3.9%	3.0%	10.0%	6.0%	6.0%	6.0%	6.0%	6.0%
12-29-10	4,364.6	4,495.5	4,945.0	5,241.7	5,556.3	5,889.6	6,243.0	6,617.6
	3.9%	2.0%	10.0%	6.0%	6.0%	6.0%	6.0%	6.0%
9-10-10	4,364.6	4,451.9	4,897.0	5,190.9	5,502.3	5,832.4	6,182.4	6,553.3
Difference	**-**	**43.6**	**48.0**	**50.9**	**53.9**	**57.2**	**60.6**	**64.3**
Non-tax revenues								
Executive Branch:								
12-29-10	453.2	514.0	496.6	503.5	505.5	508.0	496.4	499.4
9-10-10	453.2	512.3	495.7	502.4	504.2	506.3	494.2	495.2
Difference	**-**	**1.7**	**1.0**	**1.1**	**1.3**	**1.7**	**2.3**	**4.2**
Judiciary:								
12-29-10	35.7	36.2	36.8	37.4	38.0	38.7	39.4	40.1
9-10-10	35.7	35.9	36.7	37.4	38.2	39.1	39.1	39.1
Difference	**-**	**0.3**	**0.1**	**(0.1)**	**(0.2)**	**(0.4)**	**0.3**	**1.0**
Total - Non-tax revenues								
12-29-10	488.9	550.2	533.4	540.9	543.5	546.7	535.8	539.4
9-10-10	488.9	548.2	532.3	539.8	542.4	545.3	533.2	534.2
Difference	**-**	**2.0**	**1.1**	**1.1**	**1.1**	**1.4**	**2.6**	**5.2**
TOTAL - TAX + NON-TAX								
12-29-10	4,853.5	5,045.7	5,478.5	5,782.6	6,099.8	6,436.3	6,778.8	7,157.0
9-10-10	4,853.5	5,000.1	5,429.4	5,730.7	6,044.7	6,377.8	6,715.6	7,087.6
DIFFERENCE	**-**	**45.6**	**49.1**	**51.9**	**55.0**	**58.5**	**63.2**	**69.4**

SUMMARY STATEMENT OF GENERAL FUND EXPENDITURE CEILING AND APPROPRIATIONS

A. Total State Personal Income and State Growth

1. Total State Personal Income (in $ millions)

Calendar Year 2007	52,516
Calendar Year 2008	54,612
Calendar Year 2009	54,495
Calendar Year 2010*	55,585
Calendar Year 2011*	57,252

* As estimated by the Council on Revenues

2. State Growth

Fiscal Year 2012	1.93%
Fiscal Year 2013	1.59%

B. All Branches of State Government

1. General Fund Appropriations

Fiscal Year 2010	5,381,821,674
Fiscal Year 2011 (incl. proposed)	5,114,026,244
Fiscal Year 2012 (proposed)	5,749,016,289
Fiscal Year 2013 (proposed)	5,937,246,912

2. General Fund Expenditure Ceiling

Fiscal Year 2011	7,065,707,118
Fiscal Year 2012	7,201,771,664
Fiscal Year 2013	7,316,638,851

C. Executive Branch

1. Recommended General Fund Appropriations

Fiscal Year 2012	5,573,210,288
Fiscal Year 2013	5,758,975,211

2. Actual General Fund Appropriations

Fiscal Year 2010	5,208,144,765
Fiscal Year 2011	4,943,618,231

3. Proposed Add'l Appropriations FY 11 — 5,000,000

Total FY 2011	4,948,618,231

4. General Fund Appropriation Ceiling

Fiscal Year 2011	5,393,587,723
Fiscal Year 2012	5,043,913,929
Fiscal Year 2013	5,662,102,164

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 2011-2013 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 2010-2011 and estimated for each fiscal year from fiscal year 2011-2012 to 2014-2015, is as follows:

Fiscal Year	Net General Fund Revenues	Debt Limit
2007-2008	5,222,739,619	
2008-2009	5,034,984,956	
2009-2010	4,841,194,658	
2010-2011	4,985,605,000	931,100,019
2011-2012	5,417,547,000	916,476,718
2012-2013	5,722,257,000	940,068,044
2013-2014	6,037,084,000	994,400,222
2014-2015	(not applicable)	1,059,241,427

For fiscal years 2010-2011, 2011-2012, 2012-2013, 2013-2014 and 2014-2015 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 2007-2008, 2008-2009 and 2009-2010 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, 2010, dated November 23, 2010. The net general fund revenues for fiscal years 2010-2011 to 2013-2014 are estimates, based on general fund revenue estimates made as of September 10, 2010, 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 2010-2011 to 2029-2030, the total amounts of principal and interest on outstanding general obligation bonds are as follows:

Fiscal Year	Gross			Excludable			Net Debt Service		
Ending June 30	Principal Payable	Interest Payable	Debt Service Payable	Principal Payable	Interest Payable	Debt Service Payable	Principal Payable	Interest Payable	Debt Service Payable
2011	102,265,000	217,618,115	319,883,115	10,888,628	2,795,957	13,684,585	91,376,372	214,822,158	306,198,530
2012	287,520,000	231,374,696	518,894,696	9,393,412	2,435,138	11,828,550	278,126,588	228,939,558	507,066,145
2013	371,230,000	216,412,841	587,642,841	6,393,408	2,036,478	8,429,886	364,836,592	214,376,363	579,212,955
2014	386,725,000	198,912,603	585,637,603	5,765,774	1,853,218	7,618,992	380,959,226	197,059,385	578,018,611
2015	436,755,000	180,878,825	617,633,825	5,684,380	1,694,914	7,379,294	431,070,620	179,183,911	610,254,531
2016	409,620,000	159,924,279	569,544,279	4,392,997	1,540,729	5,933,726	405,227,003	158,383,551	563,610,553
2017	441,250,000	140,637,655	581,887,655	4,162,432	1,409,788	5,572,219	437,087,568	139,227,867	576,315,435
2018	388,755,000	120,564,215	509,319,215	3,111,048	1,274,682	4,385,731	385,643,952	119,289,533	504,933,484
2019	338,730,000	103,999,526	442,729,526	2,230,352	1,153,278	3,383,630	336,499,648	102,846,248	439,345,896
2020	272,940,000	88,672,400	361,612,400	2,339,328	1,044,279	3,383,607	270,600,672	87,628,121	358,228,793
2021	219,995,000	76,806,775	296,801,775	2,453,591	930,000	3,383,591	217,541,409	75,876,774	293,418,183
2022	233,310,000	66,289,932	299,599,932	2,572,569	808,089	3,380,658	230,737,431	65,481,843	296,219,274
2023	226,270,000	55,262,114	281,532,114	2,700,670	680,029	3,380,698	223,569,330	54,582,085	278,151,415
2024	228,760,000	44,734,584	273,494,584	2,835,234	545,738	3,380,972	225,924,766	44,188,846	270,113,612
2025	198,380,000	34,392,609	232,772,609	2,976,674	404,301	3,380,975	195,403,326	33,988,307	229,391,634
2026	184,480,000	25,649,981	210,129,981	3,124,957	255,885	3,380,842	181,355,043	25,394,097	206,749,139
2027	142,940,000	17,440,908	160,380,908	1,135,554	100,184	1,235,738	141,804,446	17,340,724	159,145,170
2028	119,395,000	10,812,602	130,207,602	893,484	43,869	937,352	118,501,516	10,768,733	129,270,249
2029	92,585,000	5,387,806	97,972,806	0	0	0	92,585,000	5,387,806	97,972,806
2030	44,125,000	1,586,073	45,711,073	0	0	0	44,125,000	1,586,073	45,711,073

Additionally, the outstanding principal amount of bonds constituting instruments of indebtedness in which the State has incurred a contingent liability as a guarantor is $183,500,000, 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, 2010, adjusted for (a) lapses proposed in THE EXECUTIVE BUDGET [Budget Period: 2011-2013] (referred to as the "Budget"), (b) unrecorded $32,000,000 for the Series DS general obligation bonds, the total amount of authorized but unissued general obligation bonds is $1,397,081,206. The amount of general obligation bonds proposed in the Budget is $1,050,000,000 (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 $2,447,081,206.

(5) Proposed general obligation bond issuance. As reported in the Budget, as it applies to the fiscal period 2010-2011 to 2014-2015, the State proposed to issue $550,000,000 in general obligation bonds during the second half of fiscal year 2010-2011, $300,000,000 in general obligation bonds during the first half of 2011-2012, $375,000,000 in general obligation bonds during the second half of fiscal year 2011-2012, $300,000,000 in general obligation bonds during the first half of fiscal year 2012-2013, $325,000,000 in general obligation bonds during the second half of fiscal year 2012-2013, and $150,000,000 in general obligation bonds semi annually during fiscal years 2013-2014 and 2014-2015. 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.

(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 2011-2012, 2012-2013, 2013-2014, and 2014-2015, is $2,450,000,000. The total amount of $2,450,000,000 which is proposed to be issued through fiscal year 2014-2015 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 $2,447,081,206, 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, 2015, 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 if 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 1.41 percent for the ten years from fiscal year 2010-2011 to fiscal year 2019-2020. 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 2010-2011, 2011-2012, 2012-2013, 2013-2014 and 2014-2015 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	5,670,530,000
2011-2012	6,338,780,000
2012-2013	6,957,530,000
2013-2014	7,254,530,000
2014-2015	7,551,530,000

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) 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 5.25 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
2nd half FY 2010-2011 $554,500,000	931,100,019	666,835,075 (2014-2015)
1st half FY 2011-2012 $297,000,000	916,476,718	682,427,575 (2014-2015)
2nd half FY 2011-2012 $371,250,000	916,476,718	701,918,200 (2014-2015)
1st half FY 2012-2013 $297,000,000	940,068,044	719,548,492 (2016-2017)
2nd half FY 2012-2013 $321,750, 000	940,068,044	748,620,367 (2016-2017)
1st half FY 2013-2014 $148,500,000	994,400,222	756,416,617 (2016-2017)
2nd half FY 2013-2014 $148,500,000	994,400,222	764,212,867 (2016-2017)
1st half FY 2014-2015 $148,500,000	1,059,241,427	772,009,117 (2016-2017)
2nd half FY 2014-2015 $148,500,000	1,059,241,427	779,805,367 (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 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.

Interim Director of Finance
State of Hawaii