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# 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 Hawaii state  
4 constitution which states:

5           "Effective July 1, 1980, the legislature shall  
6 include a declaration of findings in every general law  
7 authorizing the issuance of general obligation bonds  
8 that the total amount of principal and interest,  
9 estimated for such bonds and for all bonds authorized  
10 and unissued and calculated for all bonds issued and  
11 outstanding, will not cause the debt limit to be  
12 exceeded at the time of issuance",  
13 the legislature finds and declares as follows:

14           (1) Limitation on general obligation debt. The debt limit  
15 of the State is set forth in article VII, section 13  
16 of the state constitution, which states in part:

17           "General obligation bonds may be issued by the State;  
18 provided that such bonds at the time of issuance would



1 not cause the total amount of principal and interest  
2 payable in the current or any future fiscal year,  
3 whichever is higher, on such bonds and on all  
4 outstanding general obligation bonds to exceed: a sum  
5 equal to twenty percent of the average of the general  
6 fund revenues of the State in the three fiscal years  
7 immediately preceding such issuance until June 30,  
8 1982; and thereafter, a sum equal to eighteen and one-  
9 half per cent of the average of the general fund  
10 revenues of the State in the three fiscal years  
11 immediately preceding such issuance."

12 Article VII, section 13 also provides that in  
13 determining the power of the State to issue general  
14 obligation bonds, certain bonds are excludable,  
15 including "[r]eimburseable general obligation bonds  
16 issued for a public undertaking, improvement or system  
17 but only to the extent that reimbursements to the  
18 general fund are in fact made from the net revenue, or  
19 net user tax receipts, or combination of both, as  
20 determined for the immediately preceding fiscal year"  
21 and "[b]onds constituting instruments of indebtedness  
22 under which the State . . . incurs a contingent



1 liability as a guarantor, but only to the extent the  
 2 principal amount of such bonds does not exceed seven  
 3 percent of the principal amount of outstanding general  
 4 obligation bonds not otherwise excluded" under article  
 5 VII, section 13.

6 (2) Actual and estimated debt limits. The limit on  
 7 principal and interest of general obligation bonds  
 8 issued by the State, actual for fiscal year 2012-2013  
 9 and estimated for each fiscal year from 2013-2014 to  
 10 2016-2017, is as follows:

11	Fiscal	Net General	
12	<u>Year</u>	<u>Fund Revenues</u>	<u>Debt Limit</u>
13			
14	2009-2010		
15	2010-2011		
16	2011-2012		
17	2012-2013		
18	2013-2014		
19	2014-2015		
20	2015-2016		
21	2016-2017	(not applicable)	

22  
 23 For fiscal years 2012-2013, 2013-2014, 2014-2015,  
 24 2015-2016, and 2016-2017 respectively, the debt limit  
 25 is derived by multiplying the average of the net  
 26 general fund revenues for the three preceding fiscal  
 27 years by eighteen and one-half per cent. The net  
 28 general fund revenues for fiscal years 2009-2010,



1 2010-2011, and 2011-2012 are actual, as certified by  
2 the director of finance in the Statement of the Debt  
3 Limit of the State of Hawaii as of July 1, 2012, dated  
4 October 18, 2012. The net general fund revenues for  
5 fiscal years 2012-2013 to 2015-2016 are estimates,  
6 based on general fund revenue estimates made as of  
7 March 15, 2013, by the council on revenues, the body  
8 assigned by article VII, section 7 of the state  
9 constitution to make such estimates, and based on  
10 estimates made by the department of budget and finance  
11 of those receipts which cannot be included as general  
12 fund revenues for the purpose of calculating the debt  
13 limit, all of which estimates the legislature finds to  
14 be reasonable.

15 (3) Principal and interest on outstanding bonds applicable  
16 to the debt limit.

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



1                   general obligation bonds within the debt limit as  
 2                   of April 1, 2013, is as follows for fiscal year  
 3                   2013-2014 to fiscal year 2019-2020:

4	Fiscal	Principal
5	<u>Year</u>	<u>and Interest</u>
6		
7	2013-2014	
8	2014-2015	
9	2015-2016	
10	2016-2017	
11	2017-2018	
12	2018-2019	
13	2019-2020	

14

15                   The department of budget and finance further reports  
 16                   that the amount of principal and interest on  
 17                   outstanding bonds applicable to the debt limit  
 18                   generally continues to decline each year from fiscal  
 19                   year 2020-2021 to fiscal year 2032-2033 when the final  
 20                   installment of \$72,249,725 shall be due and payable.

21                   (B) The department of budget and finance further  
 22                   reports that the outstanding principal amount of  
 23                   bonds constituting instruments of indebtedness  
 24                   under which the State may incur a contingent  
 25                   liability as a guarantor is \$233,500,000, all or  
 26                   part of which is excludable in determining the  
 27                   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, 2013, adjusted  
8           for:

9           (i) Appropriations to be funded by general  
10           obligation bonds or reimbursable general  
11           obligation bonds as provided in Act       ,  
12           Session Laws of Hawaii 2013 (the General  
13           Appropriations Act of 2013), to be expended  
14           in fiscal year 2013-2014;

15           (ii) Lapses as provided in Act       , Session Laws  
16           of Hawaii 2013 (the General Appropriations  
17           Act of 2013);

18           (iii) Appropriations to be funded by general  
19           obligation bonds or reimbursable general  
20           obligation bonds as provided in Act       ,  
21           Session Laws of Hawaii 2013 (the Judiciary



1                   Appropriations Act of 2013), to be expended  
2                   in fiscal year 2013-2014; and  
3                   (iv) Lapses as provided in Act       , Session Laws  
4                   of Hawaii 2013 (the Judiciary Appropriations  
5                   Act of 2013);  
6                   the total amount of authorized but unissued  
7                   general obligation bonds is \$2,008,699,756. The  
8                   total amount of general obligation bonds  
9                   authorized in this Act is \$436,726,000. The  
10                  total amount of general obligation bonds  
11                  previously authorized and unissued, as adjusted,  
12                  and the general obligation bonds authorized in  
13                  this Act is \$2,445,425,756.  
14                  (B) As reported by the department of budget and  
15                  finance, the outstanding principal amount of  
16                  bonds constituting instruments of indebtedness  
17                  under which the State may incur a contingent  
18                  liability as a guarantor is \$233,500,000, all or  
19                  part of which is excludable in determining the  
20                  power of the State to issue general obligation  
21                  bonds, pursuant to article VII, section 13 of the  
22                  state constitution.



1 (5) Proposed general obligation bond issuance. As  
2 reported therein for the fiscal years 2013-2014, 2014-  
3 2015, and 2015-2016, the State proposed to issue  
4 \$325,000,000 in general obligation bonds during the  
5 first half of fiscal year 2013-2014, \$450,000,000 in  
6 general obligation bonds during the second half of  
7 fiscal year 2013-2014, \$500,000,000 in general  
8 obligation bonds during the first half of fiscal year  
9 2014-2015, \$350,000,000 in general obligation bonds  
10 during the second half of fiscal year 2014-2015,  
11 \$500,000,000 in general obligation bonds during the  
12 first half of fiscal year 2015-2016, and \$325,000,000  
13 in general obligation bonds during the second half of  
14 fiscal year 2015-2016. It has been the practice of  
15 the State to issue twenty-year serial bonds with  
16 principal repayments beginning the fifth year, the  
17 bonds payable in substantially equal annual  
18 installments of principal and interest payment with  
19 interest payments commencing six months from the date  
20 of issuance and being paid semi-annually thereafter.  
21 It is assumed that this practice will continue to be  
22 applied to the bonds that are proposed to be issued.





1 (6) Sufficiency of proposed general obligation bond  
2 issuance to meet the requirements of authorized and  
3 unissued bonds, as adjusted, and bonds authorized by  
4 this Act. From the schedule reported in paragraph  
5 (5), the total amount of general obligation bonds that  
6 the State proposes to issue during the fiscal years  
7 2013-2014 to 2015-2016 is \$1,625,000,000. An  
8 additional \$825,000,000 is proposed to be issued in  
9 fiscal year 2016-2017. The total amount of  
10 \$1,625,000,000 which is proposed to be issued through  
11 fiscal year 2015-2016 is sufficient to meet the  
12 requirements of the authorized and unissued bonds, as  
13 adjusted, the total amount of which is \$2,445,425,756  
14 reported in paragraph (4), except for \$820,425,756.  
15 It is assumed that the appropriations to which an  
16 additional \$820,425,756 in bond issuance needs to be  
17 applied will have been encumbered as of June 30, 2016.  
18 The \$825,000,000 which is proposed to be issued in  
19 fiscal year 2016-2017 will be sufficient to meet the  
20 requirements of the June 30, 2016, encumbrances in the  
21 amount of \$820,425,756. The amount of assumed  
22 encumbrances as of June 30, 2016, is reasonable and



1 conservative, based upon an inspection of June 30  
2 encumbrances of the general obligation bond fund as  
3 reported by the state comptroller. Thus, taking into  
4 account the amount of authorized and unissued bonds,  
5 as adjusted, and the bonds authorized by this Act  
6 versus the amount of bonds proposed to be issued by  
7 June 30, 2016, and the amount of June 30, 2016,  
8 encumbrances versus the amount of bonds proposed to be  
9 issued in fiscal year 2016-2017, the legislature finds  
10 that in the aggregate, the amount of bonds proposed to  
11 be issued is sufficient to meet the requirements of  
12 all authorized and unissued bonds and the bonds  
13 authorized by this Act.

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

18 (A) General obligation reimbursable bonds can be  
19 excluded under certain conditions. It is not  
20 possible to make a conclusive determination as to  
21 the amount of reimbursable bonds which are



1           excludable from the amount of each proposed bond  
2           issued because:

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

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

11          However, the legislature notes that with respect  
12          to the principal and interest on outstanding  
13          general obligation bonds, according to the  
14          department of budget and finance, the average  
15          proportion of principal and interest which is  
16          excludable each year from the calculation against  
17          the debt limit is 1.07 per cent for the ten years  
18          from fiscal year 2012-2013 to fiscal year 2021-  
19          2022. For the purpose of this declaration, the  
20          assumption is made that one per cent of each bond  
21          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 the  
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; provided that  
11          the State shall establish and maintain a reserve  
12          in an amount in reasonable proportion to the  
13          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          2012-2013, 2013-2014, 2014-2015, 2015-2016, and  
22          2016-2017 are as follows:



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Total amount of  
General Obligation Bonds  
not otherwise excluded by  
Article VII, Section 13  
of the State Constitution

<u>Fiscal year</u>
2012-2013
2013-2014
2014-2015
2015-2016
2016-2017

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 the American Recovery and Reinvestment Act of 2009, as  
17 may be amended from time to time, not to exceed 5.25  
18 per cent, it can be determined from the following  
19 schedule that the bonds which are proposed to be  
20 issued, which include all authorized and unissued  
21 bonds previously authorized, as adjusted, general  
22 obligation bonds, and instruments of indebtedness



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

5	6	7	8	9	10
	Time of Issuance	Debt Limit	Greatest Amount		
	and Amount to be	at Time of	and Year of		
	Counted Against	Issuance	Highest Principal		
	<u>Debt Limit</u>	<u>Issuance</u>	and Interest		<u>on Bonds and Guaranties</u>
11	1 <sup>st</sup> half FY 2013-2014				
12					
13	2 <sup>nd</sup> half FY 2013-2014				
14					
15	1 <sup>st</sup> half FY 2014-2015				
16					
17	2 <sup>nd</sup> half FY 2014-2015				
18					
19	1 <sup>st</sup> half FY 2015-2016				
20					
21	2 <sup>nd</sup> half FY 2015-2016				
22					
23	1 <sup>st</sup> half FY 2016-2017				
24					
25	2 <sup>nd</sup> half FY 2016-2017				

26  
 27 (9) Overall and concluding finding. From the facts,  
 28 estimates, and assumptions stated in this declaration  
 29 of findings, the conclusion is reached that the total  
 30 amount of principal and interest estimated for the  
 31 general obligation bonds authorized in this Act, and  
 32 for all bonds authorized and unissued, and calculated  
 33 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 Act       , Session Laws of Hawaii 2013 (the  
16          General Appropriations Act of 2013) and Act       , Session Laws of  
17          Hawaii 2013 (the Judiciary Appropriations Act of 2013), passed  
18          by the legislature during this regular session of 2013, and  
19          designated to be financed from the general obligation bond fund  
20          and from the general obligation bond fund with debt service cost  
21          to be paid from special funds; provided that the sum total of





1 general obligation bonds so issued shall not exceed  
2 \$436,726,000.

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

8 SECTION 4. The provisions of this Act are declared to be  
9 severable and if any portion thereof is held to be invalid for  
10 any reason, the validity of the remainder of this Act shall not  
11 be affected.

12 SECTION 5. In printing this Act, the revisor of statutes  
13 shall substitute in section 1 and section 3 the corresponding  
14 act numbers for bills identified therein.

15 SECTION 6. This Act shall take effect upon its approval.



**Report Title:**

General Obligation Bond Declaration

**Description:**

Authorizes issuance of general obligation bonds. Makes findings required by article VII, section 13 of the Hawaii State Constitution to declare that the issuance of authorized bonds will not cause the debt limit to be exceeded. (SD1)

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

