

TESTIMONY BY KALBERT K. YOUNG
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE SENATE COMMITTEE ON WAYS AND MEANS
ON
SENATE BILL NO. 1033

January 30, 2013

RELATING TO PUBLIC FINANCE

Senate Bill No. 1033 proposes to amend Section 39-6, Hawaii Revised Statutes, to allow premiums received on the sale of general obligation (GO) bonds to be used for eligible capital expenditures pursuant to Section 39-2, Hawaii Revised Statutes (HRS) in addition to allowing the premium to be deposited into the general fund.

The Department strongly supports this administration measure.

Currently, Section 39-6, HRS, requires the premiums received from the sale of GO bonds to be deposited in the State's general fund. The proposed legislation will also allow such premiums to be used to finance eligible capital expenditures, pursuant to Section 39-2, HRS, which includes the construction or improvement of various public facilities, such as elementary and secondary schools, community college, and university facilities, and other purposes approved by the Legislature. The purpose of the proposed amendment is to provide the Department with the flexibility to structure GO bond sales in the most efficient manner. For example, assuming the State desires GO bond funding for \$500 million of capital improvement projects, the Department would then have the option to:

- 1) issue GO bonds in the amounts required fund capital projects, e.g. issue \$500 million of GO bonds to fund \$500 million in capital projects with the premium, if any, being deposited into the general fund (assume premium is \$50 million); or
- 2) issue GO bonds in a lesser amount than required for capital projects and utilize the premium to fund the difference required for capital projects, e.g. issue \$450 million in GO bonds and combined with the \$50 million premium, the State would generate the necessary \$500 million for capital projects.

The proposed amendment will allow the Department and the State of Hawaii to incur less debt and related annual debt service costs while being able to meet funding requirements for capital improvement projects.

Thank you for the opportunity to provide testimony on this measure.