

---

---

# 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 said 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 2013-2014  
7 and estimated for each fiscal year from 2014-2015 to  
8 2016-2017, is as follows:

9	Fiscal	Net General	
10	<u>Year</u>	<u>Fund Revenues</u>	<u>Debt Limit</u>
11	2010-2011	\$5,102,646,283	
12	2011-2012	5,648,800,650	
13	2012-2013	6,226,008,766	
14	2013-2014	6,125,951,000	\$ 1,046,943,101
15	2014-2015	6,352,585,000	1,110,046,892
16	2015-2016	6,637,692,000	1,153,446,927
17	2016-2017	(not applicable)	1,178,834,060
18			

19 For fiscal years 2013-2014, 2014-2015, 2015-2016, and  
20 2016-2017, respectively, the debt limit is derived by  
21 multiplying the average of the net general fund  
22 revenues for the three preceding fiscal years by  
23 eighteen and one-half per cent. The net general fund  
24 revenues for fiscal years 2010-2011, 2011-2012, and  
25 2012-2013 are actual, as certified by the director of  
26 finance in the Statement of the Debt Limit of the



1 State of Hawaii as of July 1, 2013, dated October 8,  
2 2013. The net general fund revenues for fiscal years  
3 2013-2014 to 2015-2016 are estimates, based on general  
4 fund revenue estimates made as of March 11, 2014, by  
5 the council on revenues, the body assigned by Article  
6 VII, Section 7 of the State Constitution to make such  
7 estimates, and based on estimates made by the  
8 department of budget and finance of those receipts  
9 which cannot be included as general fund revenues for  
10 the purpose of calculating the debt limit, all of  
11 which estimates the legislature finds to be  
12 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, 2014, is as follows for fiscal year  
2 2014-2015 to fiscal year 2020-2021:

3 4	<u>Fiscal Year</u>	<u>Principal and Interest</u>
5	2014-2015	\$686,297,481
6	2015-2016	655,213,279
7	2016-2017	655,551,824
8	2017-2018	616,921,125
9	2018-2019	605,999,091
10	2019-2020	536,314,722
11	2020-2021	472,330,572

12 The department of budget and finance further  
13 reports that the amount of principal and interest  
14 on outstanding bonds applicable to the debt limit  
15 generally continues to decline each year from  
16 fiscal year 2021-2022 to fiscal year 2033-2034  
17 when the final installment of \$60,880,505 shall  
18 be due and payable.

19 (B) The department of budget and finance further  
20 reports that the outstanding principal amount of  
21 bonds constituting instruments of indebtedness  
22 under which the State may incur a contingent  
23 liability as a guarantor is \$233,500,000, all or  
24 part of which is excludable in determining the  
25 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, 2014, adjusted  
8           for:

9           (i) Appropriations to be funded by general  
10           obligation bonds or reimbursable general  
11           obligation bonds as provided in Act 134,  
12           Session Laws of Hawaii 2013 (the General  
13           Appropriations Act of 2013), to be expended  
14           in fiscal year 2014-2015, adjusted for  
15           additional appropriations provided in House  
16           Bill No. 1700, H.D. 1, S.D. 1, C.D. 1 (the  
17           Supplemental Appropriations Act of 2014);

18           (ii) Lapses as provided in House Bill No. 1700,  
19           H.D. 1, S.D. 1, C.D. 1 (the Supplemental  
20           Appropriations Act of 2014);

21           (iii) Appropriations to be funded by general  
22           obligation bonds or reimbursable general



1 obligation bonds as provided in Act 133,  
2 Session Laws of Hawaii 2013 (the Judiciary  
3 Appropriations Act of 2013) to be expended  
4 in fiscal year 2014-2015, adjusted for  
5 additional appropriations provided in House  
6 Bill No. 1638, H.D. 2, S.D. 2, C.D. 1 (the  
7 Judiciary Supplemental Appropriations Act of  
8 2014); and

9 (iv) Lapses as provided in House Bill No. 1638,  
10 H.D. 2, S.D. 2, C.D. 1 (the Judiciary  
11 Supplemental Appropriations Act of 2014);

12 the total amount of authorized but unissued  
13 general obligation bonds is \$2,127,989,184. The  
14 total amount of general obligation bonds  
15 authorized in this Act is \$962,996,000. The  
16 total amount of general obligation bonds  
17 previously authorized and unissued, as adjusted,  
18 and the general obligation bonds authorized in  
19 this Act is \$3,090,985,184.

20 (B) As reported by the department of budget and  
21 finance the outstanding principal amount of bonds  
22 constituting instruments of indebtedness under



1           which the State may incur a contingent liability  
2           as a guarantor is \$233,500,000, all or part of  
3           which is excludable in determining the power of  
4           the State to issue general obligation bonds,  
5           pursuant to Article VII, Section 13 of the State  
6           Constitution.

7           (5) Proposed general obligation bond issuance. As  
8           reported therein for the fiscal years 2014-2015, 2015-  
9           2016, and 2016-2017, the State proposed to issue  
10          \$400,000,000 in general obligation bonds during the  
11          first half of fiscal year 2014-2015, \$600,000,000 in  
12          general obligation bonds during the second half of  
13          fiscal year 2014-2015, \$500,000,000 in general  
14          obligation bonds during the first half of fiscal year  
15          2015-2016, \$500,000,000 in general obligation bonds  
16          during the second half of fiscal year 2015-2016,  
17          \$550,000,000 in general obligation bonds during the  
18          first half of fiscal year 2016-2017, and \$550,000,000  
19          in general obligation bonds during the second half of  
20          fiscal year 2016-2017. It has been the practice of  
21          the State to issue twenty-year serial bonds with  
22          principal repayments beginning in the fifth year, the





1 bonds payable in substantially equal annual  
2 installments of principal and interest payment with  
3 interest payments commencing six months from the date  
4 of issuance and being paid semi-annually thereafter.

5 It is assumed that this practice will continue to be  
6 applied to the bonds that are proposed to be issued.

7 (6) Sufficiency of proposed general obligation bond  
8 issuance to meet the requirements of authorized and  
9 unissued bonds, as adjusted, and bonds authorized by  
10 this Act. From the schedule reported in paragraph  
11 (5), the total amount of general obligation bonds that  
12 the State proposes to issue during the fiscal years  
13 2014-2015 to 2015-2016 is \$2,000,000,000. An  
14 additional \$1,100,000,000 is proposed to be issued in  
15 fiscal year 2016-2017. The total amount of  
16 \$2,000,000,000 which is proposed to be issued through  
17 fiscal year 2015-2016 is sufficient to meet the  
18 requirements of the authorized and unissued bonds, as  
19 adjusted, the total amount of which is \$3,090,985,184  
20 reported in paragraph (4), except for \$1,090,985,184.  
21 It is assumed that the appropriations to which an  
22 additional \$1,090,985,184 in bond issuance needs to be



1 applied will have been encumbered as of June 30, 2016.  
2 The \$1,100,000,000 which is proposed to be issued in  
3 fiscal year 2016-2017 will be sufficient to meet the  
4 requirements of the June 30, 2016 encumbrances in the  
5 amount of \$1,090,985,184. The amount of assumed  
6 encumbrances as of June 30, 2016 is reasonable and  
7 conservative, based upon an inspection of June 30  
8 encumbrances of the general obligation bond fund as  
9 reported by the state comptroller. Thus, taking into  
10 account the amount of authorized and unissued bonds,  
11 as adjusted, and the bonds authorized by this Act  
12 versus the amount of bonds proposed to be issued by  
13 June 30, 2016, and the amount of June 30, 2016  
14 encumbrances versus the amount of bonds proposed to be  
15 issued in fiscal year 2016-2017, the legislature finds  
16 that in the aggregate, the amount of bonds proposed to  
17 be issued is sufficient to meet the requirements of  
18 all authorized and unissued bonds and the bonds  
19 authorized by this Act.

20 (7) Bonds excludable in determining the power of the State  
21 to issue bonds. As noted in paragraph (1), certain



1           bonds are excludable in determining the power of the  
2           State to issue general obligation bonds.

3           (A) General obligation reimbursable bonds can be  
4           excluded under certain conditions. It is not  
5           possible to make a conclusive determination as to  
6           the amount of reimbursable bonds which are  
7           excludable from the amount of each proposed bond  
8           issued because:

9           (i) It is not known exactly when projects for  
10           which reimbursable bonds have been  
11           authorized in prior acts and in this Act  
12           will be implemented and will require the  
13           application of proceeds from a particular  
14           bond issue; and

15           (ii) Not all reimbursable general obligation  
16           bonds may qualify for exclusion.

17           However, the legislature notes that with respect to  
18           the principal and interest on outstanding general  
19           obligation bonds, according to the department of  
20           budget and finance, the average proportion of  
21           principal and interest which is excludable each year  
22           from the calculation against the debt limit is 0.76



1 per cent for approximately ten years from fiscal year  
2 2013-2014 to fiscal year 2022-2023. For the purpose  
3 of this declaration, the assumption is made that 0.75  
4 per cent of each bond issue will be excludable from  
5 the debt limit, an assumption which the legislature  
6 finds to be reasonable and conservative.

7 (B) Bonds constituting instruments of indebtedness under  
8 which the State incurs a contingent liability as a  
9 guarantor can be excluded but only to the extent the  
10 principal amount of such guaranties does not exceed  
11 seven per cent of the principal amount of outstanding  
12 general obligation bonds not otherwise excluded under  
13 subparagraph (A) of this paragraph (7) and provided  
14 that the State shall establish and maintain a reserve  
15 in an amount in reasonable proportion to the  
16 outstanding loans guaranteed by the State as provided  
17 by law. According to the department of budget and  
18 finance and the assumptions presented herein, the  
19 total principal amount of outstanding general  
20 obligation bonds and general obligation bonds proposed  
21 to be issued, which are not otherwise excluded under  
22 Article VII, Section 13 of the State Constitution for



1 the fiscal years 2013-2014, 2014-2015, 2015-2016, and  
2 2016-2017 are as follows:

3 4 5 6 7	<u>Fiscal year</u>	Total amount of General Obligation Bonds not otherwise excluded by Article VII, Section 13 <u>of the State Constitution</u>
8	2013-2014	5,900,545,000
9	2014-2015	6,893,045,000
10	2015-2016	7,885,545,000
11	2016-2017	8,977,295,000

12 Based on the foregoing and based on the assumption  
13 that the full amount of a guaranty is immediately due  
14 and payable when such guaranty changes from a  
15 contingent liability to an actual liability, the  
16 aggregate principal amount of the portion of the  
17 outstanding guaranties and the guaranties proposed to  
18 be incurred, which does not exceed seven per cent of  
19 the average amount set forth in the last column of the  
20 above table and for which reserve funds have been or  
21 will have been established as heretofore provided, can  
22 be excluded in determining the power of the State to  
23 issue general obligation bonds. As it is not possible  
24 to predict with a reasonable degree of certainty when  
25 a guaranty will change from a contingent liability to

1 an actual liability, it is assumed in conformity with  
2 fiscal conservatism and prudence, that all guaranties  
3 not otherwise excluded pursuant to Article VII,  
4 Section 13 of the State Constitution will become due  
5 and payable in the same fiscal year in which the  
6 greatest amount of principal and interest on general  
7 obligation bonds, after exclusions, occurs. Thus,  
8 based on such assumptions and on the determination in  
9 paragraph (8), all of the outstanding guaranties can  
10 be excluded.

11 (8) Determination whether the debt limit will be exceeded  
12 at the time of issuance. From the foregoing and on  
13 the assumption that all of the bonds identified in  
14 paragraph (5) will be issued at a net average interest  
15 rate, after giving effect to federal subsidy payments,  
16 if any, received by the State under and pursuant to  
17 the American Recovery and Reinvestment Act of 2009, as  
18 may be amended from time to time, not to exceed 5.25  
19 percent in fiscal year 2015, and 6.00 per cent in  
20 fiscal years 2016 through 2017, it can be determined  
21 from the following schedule that the bonds which are  
22 proposed to be issued, which include all authorized



1 and unissued bonds previously authorized, as adjusted,  
 2 general obligation bonds, and instruments of  
 3 indebtedness under which the State incurs a contingent  
 4 liability as a guarantor authorized in this Act, will  
 5 not cause the debt limit to be exceeded at the time of  
 6 such issuance:

7			Greatest Amount
8	Time of Issuance	Debt Limit	and Year of
9	and Amount to be	at Time of	Highest Principal
10	Counted Against	Issuance	and Interest
11	<u>Debt Limit</u>	<u>Issuance</u>	<u>on Bonds and Guaranties</u>
12	1st half FY 2014-2015		
13	\$397,000,000	1,110,046,892	693,676,775 (2014-2015)
14	2nd half FY 2014-2015		
15	\$595,500,000	1,110,046,892	713,230,293 (2016-2017)
16	1st half FY 2015-2016		
17	\$496,250,000	1,153,446,927	728,117,793 (2016-2017)
18	2nd half FY 2015-2016		
19	\$496,250,000	1,153,446,927	732,963,106 (2017-2018)
20	1st half FY 2016-2017		
21	\$545,875,000	1,178,834,060	753,791,471 (2018-2019)
22	2nd half FY 2016-2017		
23	\$545,875,000	1,178,834,060	786,543,971 (2018-2019)

24  
 25 (9) Overall and concluding finding. From the facts,  
 26 estimates, and assumptions stated in this declaration  
 27 of findings, the conclusion is reached that the total  
 28 amount of principal and interest estimated for the  
 29 general obligation bonds authorized in this Act, and  
 30 for all bonds authorized and unissued, and calculated



1           for all bonds issued and outstanding, and all  
2           guaranties, will not cause the debt limit to be  
3           exceeded at the time of issuance.

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

13          SECTION 3. Authorization for issuance of general  
14          obligation bonds. General obligation bonds may be issued as  
15          provided by law in an amount that may be necessary to finance  
16          projects authorized in House Bill No. 1700, H.D. 1, S.D. 1, C.D.  
17          1 (the Supplemental Appropriations Act of 2014) and House Bill  
18          No. 1638, H.D. 2, S.D. 2, C.D. 1 (the Judiciary Supplemental  
19          Appropriations Act of 2014), passed by the legislature during  
20          this regular session of 2014 and designated to be financed from  
21          the general obligation bond fund and from the general obligation  
22          bond fund with debt service cost to be paid from special funds;





1 provided that the sum total of general obligation bonds so  
2 issued shall not exceed \$962,996,000.

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:**

State Bonds

**Description:**

Authorizes issuance of general obligation bonds. Makes findings required by Article VII, section 13 of the State Constitution to declare that issuance of authorized bonds will not cause debt limit to be exceeded. (HB1712 CD1)

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

