
A BILL FOR AN ACT

PROPOSING AMENDMENTS TO ARTICLE VII, SECTIONS 12 AND 13, OF THE HAWAII CONSTITUTION TO AUTHORIZE THE COUNTIES TO ISSUE TAX INCREMENT BONDS AND TO EXCLUDE TAX INCREMENT BONDS FROM DETERMINATIONS OF THE FUNDED DEBT OF THE COUNTIES.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

1 SECTION 1. The purpose of this Act is to propose
2 amendments to article VII, sections 12 and 13, of the
3 Constitution of the State of Hawaii to:

- 4 (1) Allow the counties to issue tax increment bonds; and
5 (2) Exclude tax increment bonds from determinations of the
6 funded debt of the counties.

7 SECTION 2. Article VII, section 12, of the Constitution of
8 the State of Hawaii is amended to read as follows:

9 **"DEFINITIONS; ISSUANCE OF INDEBTEDNESS**

10 **Section 12.** For the purposes of this article:

11 1. The term "bonds" shall include bonds, notes and other
12 instruments of indebtedness.

13 2. The term "general obligation bonds" means all bonds for
14 the payment of the principal and interest of which the full
15 faith and credit of the State or a political subdivision are



1 pledged and, unless otherwise indicated, includes reimbursable
2 general obligation bonds.

3 3. The term "net revenues" or "net user tax receipts"
4 means the revenues or receipts derived from:

5 a. A public undertaking, improvement or system remaining
6 after the costs of operation, maintenance and repair
7 of the public undertaking, improvement or system, and
8 the required payments of the principal of and interest
9 on all revenue bonds issued therefor, have been made;
10 or

11 b. Any payments or return on security under a loan
12 program or a loan thereunder, after the costs of
13 operation and administration of the loan program, and
14 the required payments of the principal of and interest
15 on all revenue bonds issued therefor, have been made.

16 4. The term "person" means an individual, firm,
17 partnership, corporation, association, cooperative or other
18 legal entity, governmental body or agency, board, bureau or
19 other instrumentality thereof, or any combination of the
20 foregoing.

21 5. The term "rates, rentals and charges" means all
22 revenues and other moneys derived from the operation or lease of



1 a public undertaking, improvement or system, or derived from any
2 payments or return on security under a loan program or a loan
3 thereunder; provided that insurance premium payments,
4 assessments and surcharges, shall constitute rates, rentals and
5 charges of a state property insurance program.

6 6. The term "reimbursable general obligation bonds" means
7 general obligation bonds issued for a public undertaking,
8 improvement or system from which revenues, or user taxes, or a
9 combination of both, may be derived for the payment of the
10 principal and interest as reimbursement to the general fund and
11 for which reimbursement is required by law, and, in the case of
12 general obligation bonds issued by the State for a political
13 subdivision, general obligation bonds for which the payment of
14 the principal and interest as reimbursement to the general fund
15 is required by law to be made from the revenue of the political
16 subdivision.

17 7. The term "revenue bonds" means all bonds payable from
18 the revenues, or user taxes, or any combination of both, of a
19 public undertaking, improvement, system or loan program and any
20 loan made thereunder and secured as may be provided by law,
21 including a loan program to provide loans to a state property



1 insurance program providing hurricane insurance coverage to the
2 general public.

3 8. The term "special purpose revenue bonds" means all
4 bonds payable from rental or other payments made to an issuer by
5 a person pursuant to contract and secured as may be provided by
6 law.

7 9. The term "tax increment bonds" means all bonds, the
8 principal of and interest on which are payable from and secured
9 solely by all real property taxes levied by a political
10 subdivision, such as a county, on the assessed valuation of the
11 real property in a tax increment district established by the
12 political subdivision that is in excess of the assessed
13 valuation of the real property for the fiscal year prior to the
14 effective date specified by resolution of the political
15 subdivisions of the specified public works, public improvements,
16 or other actions by the political subdivision within the tax
17 increment district.

18 [~~9.~~] 10. The term "user tax" means a tax on goods or
19 services or on the consumption thereof, the receipts of which
20 are substantially derived from the consumption, use or sale of
21 goods and services in the utilization of the functions or
22 services furnished by a public undertaking, improvement or



1 system; provided that mortgage recording taxes shall constitute
2 user taxes of a state property insurance program.

3 The legislature, by a majority vote of the members to which
4 each house is entitled, shall authorize the issuance of all
5 general obligation bonds, bonds issued under special improvement
6 statutes and revenue bonds issued by or on behalf of the State
7 and shall prescribe by general law the manner and procedure for
8 such issuance. The legislature by general law shall authorize
9 political subdivisions to issue general obligation bonds, bonds
10 issued under special improvement statutes [~~and~~], revenue bonds,
11 and tax increment bonds and shall prescribe the manner and
12 procedure for such issuance. All such bonds issued by or on
13 behalf of a political subdivision shall be authorized by the
14 governing body of such political subdivision.

15 Special purpose revenue bonds shall only be authorized or
16 issued to finance facilities of or for, or to loan the proceeds
17 of such bonds to assist:

- 18 1. Manufacturing, processing, or industrial enterprises;
- 19 2. Utilities serving the general public;
- 20 3. Health care facilities provided to the general public
- 21 by not-for-profit corporations;



- 1 4. Early childhood education and care facilities provided
2 to the general public by not-for-profit corporations;
3 5. Low and moderate income government housing programs;
4 6. Not-for-profit private nonsectarian and sectarian
5 elementary schools, secondary schools, colleges and
6 universities; or
7 7. Agricultural enterprises serving important
8 agricultural lands,
9 each of which is hereinafter referred to in this paragraph as a
10 special purpose entity.

11 The legislature, by a two-thirds vote of the members to
12 which each house is entitled, may enact enabling legislation for
13 the issuance of special purpose revenue bonds separately for
14 each special purpose entity, and, by a two-thirds vote of the
15 members to which each house is entitled and by separate
16 legislative bill, may authorize the State to issue special
17 purpose revenue bonds for each single project or multi-project
18 program of each special purpose entity; provided that the
19 issuance of such special purpose revenue bonds is found to be in
20 the public interest by the legislature; and provided further
21 that the State may combine into a single issue of special
22 purpose revenue bonds two or more proposed issues of special



1 purpose revenue bonds to assist not-for-profit private
2 nonsectarian and sectarian elementary schools, secondary
3 schools, colleges, and universities, separately authorized as
4 aforesaid, in the total amount of not exceeding the aggregate of
5 the proposed separate issues of special purpose revenue bonds.
6 The legislature may enact enabling legislation to authorize
7 political subdivisions to issue special purpose revenue bonds.
8 If so authorized, a political subdivision by a two-thirds vote
9 of the members to which its governing body is entitled and by
10 separate ordinance may authorize the issuance of special purpose
11 revenue bonds for each single project or multi-project program
12 of each special purpose entity; provided that the issuance of
13 such special purpose revenue bonds is found to be in the public
14 interest by the governing body of the political subdivision. No
15 special purpose revenue bonds shall be secured directly or
16 indirectly by the general credit of the issuer or by any
17 revenues or taxes of the issuer other than receipts derived from
18 payments by a person or persons under contract or from any
19 security for such contract or contracts or special purpose
20 revenue bonds and no moneys other than such receipts shall be
21 applied to the payment thereof. The governor shall provide the
22 legislature in November of each year with a report on the



1 cumulative amount of all special purpose revenue bonds
2 authorized and issued, and such other information as may be
3 necessary."

4 SECTION 3. Article VII, section 13, of the Constitution of
5 the State of Hawaii is amended to read as follows:

6 **"DEBT LIMIT; EXCLUSIONS**

7 **Section 13.** General obligation bonds may be issued by the
8 State; provided that such bonds at the time of issuance would
9 not cause the total amount of principal and interest payable in
10 the current or any future fiscal year, whichever is higher, on
11 such bonds and on all outstanding general obligation bonds to
12 exceed: a sum equal to twenty percent of the average of the
13 general fund revenues of the State in the three fiscal years
14 immediately preceding such issuance until June 30, 1982; and
15 thereafter, a sum equal to eighteen and one-half percent of the
16 average of the general fund revenues of the State in the three
17 fiscal years immediately preceding such issuance. Effective
18 July 1, 1980, the legislature shall include a declaration of
19 findings in every general law authorizing the issuance of
20 general obligation bonds that the total amount of principal and
21 interest, estimated for such bonds and for all bonds authorized
22 and unissued and calculated for all bonds issued and



1 outstanding, will not cause the debt limit to be exceeded at the
2 time of issuance. Any bond issue by or on behalf of the State
3 may exceed the debt limit if an emergency condition is declared
4 to exist by the governor and concurred to by a two-thirds vote
5 of the members to which each house of the legislature is
6 entitled. For the purpose of this paragraph, general fund
7 revenues of the State shall not include moneys received as
8 grants from the federal government and receipts in reimbursement
9 of any reimbursable general obligation bonds which are excluded
10 as permitted by this section.

11 A sum equal to fifteen percent of the total of the assessed
12 values for tax rate purposes of real property in each political
13 subdivision, as determined by the last tax assessment rolls
14 pursuant to law, is established as the limit of the funded debt
15 of such political subdivision that is outstanding and unpaid at
16 any time.

17 All general obligation bonds for a term exceeding two years
18 shall be in serial form maturing in substantially equal
19 installments of principal, or maturing in substantially equal
20 installments of both principal and interest. The first
21 installment of principal of general obligation bonds and of
22 reimbursable general obligation bonds shall mature not later



1 than five years from the date of issue of such series. The last
2 installment on general obligation bonds shall mature not later
3 than twenty-five years from the date of such issue and the last
4 installment on general obligation bonds sold to the federal
5 government, on reimbursable general obligation bonds and on
6 bonds constituting instruments of indebtedness under which the
7 State or a political subdivision incurs a contingent liability
8 as a guarantor shall mature not later than thirty-five years
9 from the date of such issue. The interest and principal
10 payments of general obligation bonds shall be a first charge on
11 the general fund of the State or political subdivision, as the
12 case may be.

13 In determining the power of the State to issue general
14 obligation bonds or the funded debt of any political subdivision
15 under section 12, the following shall be excluded:

16 1. Bonds that have matured, or that mature in the then
17 current fiscal year, or that have been irrevocably called for
18 redemption and the redemption date has occurred or will occur in
19 the then fiscal year, or for the full payment of which moneys or
20 securities have been irrevocably set aside.

21 2. Revenue bonds, if the issuer thereof is obligated by
22 law to impose rates, rentals and charges for the use and



1 services of the public undertaking, improvement or system or the
2 benefits of a loan program or a loan thereunder or to impose a
3 user tax, or to impose a combination of rates, rentals and
4 charges and user tax, as the case may be, sufficient to pay the
5 cost of operation, maintenance and repair, if any, of the public
6 undertaking, improvement or system or the cost of maintaining a
7 loan program or a loan thereunder and the required payments of
8 the principal of and interest on all revenue bonds issued for
9 the public undertaking, improvement or system or loan program,
10 and if the issuer is obligated to deposit such revenues or tax
11 or a combination of both into a special fund and to apply the
12 same to such payments in the amount necessary therefor.

13 3. Special purpose revenue bonds, if the issuer thereof is
14 required by law to contract with a person obligating such person
15 to make rental or other payments to the issuer in an amount at
16 least sufficient to make the required payment of the principal
17 of and interest on such special purpose revenue bonds.

18 4. Bonds issued under special improvement statutes when
19 the only security for such bonds is the properties benefited or
20 improved or the assessments thereon.

21 5. General obligation bonds issued for assessable
22 improvements, but only to the extent that reimbursements to the



1 general fund for the principal and interest on such bonds are in
2 fact made from assessment collections available therefor.

3 6. Reimbursable general obligation bonds issued for a
4 public undertaking, improvement or system but only to the extent
5 that reimbursements to the general fund are in fact made from
6 the net revenue, or net user tax receipts, or combination of
7 both, as determined for the immediately preceding fiscal year.

8 7. Reimbursable general obligation bonds issued by the
9 State for any political subdivision, whether issued before or
10 after the effective date of this section, but only for as long
11 as reimbursement by the political subdivision to the State for
12 the payment of principal and interest on such bonds is required
13 by law; provided that in the case of bonds issued after the
14 effective date of this section, the consent of the governing
15 body of the political subdivision has first been obtained; and
16 provided further that during the period that such bonds are
17 excluded by the State, the principal amount then outstanding
18 shall be included within the funded debt of such political
19 subdivision.

20 8. Bonds constituting instruments of indebtedness under
21 which the State or any political subdivision incurs a contingent
22 liability as a guarantor, but only to the extent the principal



1 amount of such bonds does not exceed seven percent of the
2 principal amount of outstanding general obligation bonds not
3 otherwise excluded under this section; provided that the State
4 or political subdivision shall establish and maintain a reserve
5 in an amount in reasonable proportion to the outstanding loans
6 guaranteed by the State or political subdivision as provided by
7 law.

8 9. Bonds issued by or on behalf of the State or by any
9 political subdivision to meet appropriations for any fiscal
10 period in anticipation of the collection of revenues for such
11 period or to meet casual deficits or failures of revenue, if
12 required to be paid within one year, and bonds issued by or on
13 behalf of the State to suppress insurrection, to repel invasion,
14 to defend the State in war or to meet emergencies caused by
15 disaster or act of God.

16 10. Tax increment bonds, but only to the extent that the
17 principal of and interest on the bonds are in fact paid from the
18 real property taxes levied by a political subdivision, such as a
19 county, on the assessed valuation of the real property in a tax
20 increment district established by the political subdivision that
21 is in excess of the assessed valuation of the real property for
22 the fiscal year prior to the effective date specified by



1 resolution of the political subdivision of the specified public
2 works, public improvements, or other actions by the political
3 subdivision within the tax increment district.

4 The total outstanding indebtedness of the State or funded
5 debt of any political subdivision and the exclusions therefrom
6 permitted by this section shall be made annually and certified
7 by law or as provided by law. For the purposes of section 12
8 and this section, amounts received from on-street parking may be
9 considered and treated as revenues of a parking undertaking.

10 Nothing in section 12 or in this section shall prevent the
11 refunding of any bond at any time."

12 SECTION 4. The question to be printed on the ballot shall
13 be as follows:

14 "As the legislature previously passed a law to allow
15 political subdivisions, such as counties, to create tax
16 increment districts and issue tax increment bonds, which are
17 bonds repaid from the increase in property taxes in those
18 tax increment districts, shall the constitution be amended
19 to clarify that the legislature has the authority to pass
20 laws on tax increment bonds?"



1 SECTION 5. Constitutional material to be repealed is
2 bracketed and stricken. New constitutional material is
3 underscored.

4 SECTION 6. This amendment shall take effect upon
5 compliance with article XVII, section 3, of the Constitution of
6 the State of Hawaii.



Report Title:

Tax Increment Bonds; Constitutional Amendment

Description:

Proposes amendments to the Constitution of the State of Hawaii to expressly provide that the Legislature may authorize political subdivisions, such as counties, to issue tax increment bonds and to exclude tax increment bonds in calculating the debt limit of the political subdivisions. (HB2167 HD1)

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