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STATE OF HAWAII
TO THE SENATE COMMITTEE ON WAYS AND MEANS AND
THE HOUSE COMMITTEE ON FINANCE

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Chairs Ige and Luke and Members of the Committees:

Thank you for the opportunity to present an overview of the Administration's FY 15 Executive Supplemental Budget and Multi-Year General Fund Financial Plan. I would like to start by first discussing the Administration's general approach to construction of the FY 15 Executive Supplemental Budget, then provide a synopsis of the supplemental operating and CIP budget, and finally cover the general fund financial plan based on the Council on Revenues' (COR) September 10, 2013 revenue projections.

APPROACH TO FY 15 EXECUTIVE SUPPLEMENTAL BUDGET

The State's financial footing has substantially improved during the past three fiscal years. Working together with the Legislature, we pursued a fiscally balanced approach that has generated a healthy and unprecedented preliminary general fund ending balance of \$844 million for FY 13. Our determination and prudent decisions, along with shared sacrifices by public employees and public service clients, have helped improve the prospects for the State's fiscal stability going forward.

However, we must be ever mindful that as recently as FY 11, the State was managing a -\$200 million revenue shortfall and negative general fund balances. It is within this context and landscape that we approached budget construction during the economic recovery – respectful of managing the future but mindful of where we've been. Where the State budget needed to expand to provide programs, those

expansions were judged as whether they would be sustainable across future economic cycles.

Generally shaping our decision-making were five strategic financial plan goals that the Administration has been pursuing since taking office:

- Build the State's financial structure and fiscal health;
- Rebuild reserves;
- Build and manage positive ending balances;
- Fund programs for sustainability; and
- Address long-term liabilities (especially, unfunded liabilities).

For the future near to intermediate term, we had three tactical financial plan objectives:

- Target reserve balances = 10% of general fund revenues;
- Target for managing fiscal ending balances = 5% to 10% of general fund revenues; and
- Accommodate forward-running expenditures = manage to bottom line on financial plan.

One of the first steps in our planning was to commit another \$100 million of general funds in FY 15 to further capitalize the State's reserves – the Emergency and Budget Reserve Fund (EBRF) and Hawaii Hurricane Relief Fund (HHRF). This would move State reserves over the threshold of 5% of general fund revenues and take us halfway towards the target reserve goal of 10%, based on current biennium forecasts.

General planning targets were also established by the Finance Director to set preliminary boundaries for additions to the general fund operating budget. Given

departmental funding expectations, we thought it prudent to have internal limits to help guide decision-making in managing to the bottom line. Supporting critical departmental requests did require flexibility on limits and targets, but what is afforded in the Executive Budget still does subscribe to our strategic philosophy of managing the financial plan for the long term. We paid particular attention in distinguishing budget items that were recurring in nature versus those that were single-year needs.

Regarding the general obligation (G.O.) bond CIP budget, our primary objective was to preserve the normalized amortization debt profile that we have been diligently working towards these past three years to put into place. Being a supplemental year, we wanted to keep debt service level in the near future and not create any spikes by allowing excessive or large amounts of CIP authorizations in FY 15. To achieve that objective, we planned on converting existing FY 15 G.O. bond CIP that were repair and maintenance-related (R&M) to cash (general funds) and use that margin to fund new non-R&M-related CIP projects. Additionally, we planned a relatively modest amount of new G.O. bond CIP authorizations to supplement the conversions.

To help further in keeping new G.O. bond authorizations manageable, we also planned on authorizing \$100 million of new R&M-related CIP authorizations using cash (general funds). We are presently planning on continuing this practice in subsequent budgets because we strongly believe that cash funding is the more appropriate funding source for moderate R&M-related CIP now that we have the financial capacity to handle these costs again.

Based on this framework, we put the FY 15 Executive Supplemental Budget together. As you will soon discover when the respective departments present their

budget requests to your Committees, the task of putting together a budget in these perceived times of “plenty” is daunting. All the initial budget requests submitted had merit and very difficult decisions had to be made because there is never enough money.

FY 15 EXECUTIVE SUPPLEMENTAL BUDGET – OPERATING

The Supplemental Budget includes proposed amendments that total -\$52.6 million in FY 14 and \$283.8 million in FY 15 from all means of financing (MOF) for operating costs. This represents a decrease of -0.4% in FY 14 from the FB 2013-15 Executive Budget and an increase of 2.4% in FY 15 from the FB 2013-15 Executive Budget. Of this amount, the net request for general funds totals -\$53.2 million in FY 14, a decrease of -0.9%, and \$183.3 million in FY 15, an increase of 3.0%. Of the requested \$183.3 million in general funds in FY 15, \$43.4 million is for non-recurring costs (e.g., one-time cash infusions to special funds, equipment, motor vehicles).

To provide greater budget transparency, departments were tasked to review and submit budget requests, to the extent possible, to correct their FB 2014-15 operating budget detail items that did not align with anticipated expenditures, such as:

- Negative adjustments;
- Underfunded, unfunded and/or unbudgeted positions; and
- Other specific budget line items.

Additionally, we are continuing the transition process for the budgeting and expenditure of federal awards with the intent of increasing transparency and improving the State’s ability to meet anticipated federal reporting requirements.

Consequently, the FY 15 Executive Supplemental Budget includes requests to amend the MOF for federal fund appropriations (MOF "N" or "P") or adjust federal fund ceilings to more accurately reflect anticipated federal award amounts, as appropriate.

A significant portion of the requested general funds are for items that are considered non-discretionary costs: \$17.3 million for FY 14 and \$50.9 million for FY 15. For example:

- \$5.3 million in FY 15 for debt service payments.
- \$17.3 million in FY 14 and \$16.2 million in FY 15 for retirement benefit payments for the University of Hawaii (UH) and for State programs other than the Department of Education (DOE) and UH.
- 4.00 permanent positions and \$9.2 million in FY 15 for adults with severe and persistent mental illness who are Medicaid eligible (transfer from the Department of Health (DOH) to the Department of Human Services (DHS)).
- \$2.6 million in FY 15 for the General Assistance block grant.
- \$5.5 million (and \$3 million in federal funds) in FY 15 to increase the Foster Care Board Rate.
- \$3.5 million in FY 15 to restructure payments for Child Care Subsidy programs.
- \$2 million (and \$18.1 million in federal funds) in FY 15 to establish the Medicaid Health Home Services program.
- \$4 million (and \$7.7 million in federal funds) in FY 15 to restore preventative adult dental benefits for Medicaid recipients.

Please note that these general fund requests are offset by requests totaling -\$70.7 million in FY 14 and -\$53.1 million (differences due to rounding) in general fund reductions to reflect projected savings, specifically:

- -\$29.7 million for debt service payments savings in FY 14 due to a more favorable interest rate for the G.O. bond sale and refunding of previous bond issuances in November 2013.
- -\$2.1 million in FY 14 and -\$0.9 million in FY 15 in FICA and pension accumulation payment savings due to updated projected requirements.
- -\$39 million in FY 14 and -\$52.3 million in FY 15 for health premium payments savings due to lower than projected rates and enrollments.

In addition to these non-discretionary cost adjustments, there are other general fund requests intended to support vital New Day Initiatives. This supplemental budget requests a comprehensive approach towards early learning in FY 15, including:

- \$1.2 million for additional purchase of services funds for early intervention services in DOH.
- \$2.5 million for DHS' School Readiness program - Preschool Open Doors - to reduce the high family co-payments currently required.
- \$4.5 million for the Executive Office on Early Learning (EOEL) to establish pre-kindergarten classes on DOE campuses through a Memorandum of Agreement.
- \$1 million for EOEL to provide family engagement for four-year olds through family-child interaction learning programs.
- \$218,000 for 3.00 temporary positions for EOEL.

Other significant FY 15 general fund requests for New Day Initiatives include:

- \$2 million for the New Farmer Loan program.
- \$1 million to establish the agricultural development and food security program.
- \$7 million for the High Technology Transfer Bridge to Manufacturing.
- \$6 million for the HI Growth Initiative.
- 7.50 temporary positions and \$752,870 (and 2.50 temporary positions and \$319,300 in federal funds) to expand Healthcare Transformation initiatives.
- \$4.2 million for continuation of the Kupuna Care program.
- \$427,937 for Aging and Disability Resource Centers.
- 2.00 temporary positions and \$1.5 million for the Vision and Hearing Screening program to be provided at public elementary schools.
- 1.0 temporary position and \$3.1 million to establish the REACH Initiative after-school programs for middle and intermediate schools.
- 11.00 temporary positions and \$3.5 million for the Watershed Initiative.

Other significant FY 15 general fund requests include:

- \$2 million for a Sports Development Initiative.
- \$794,959 for the County Victim Services program as part of the Justice Reinvestment Initiative.
- 9.52 permanent positions and \$299,394 (and 18.48 permanent positions and \$737,504 in other federal funds) for case management staff at the Child Support Enforcement Agency.
- 0.75 permanent position and \$1.3 million (and 2.25 permanent positions and \$2.9 million in federal funds) for National Guard facilities.

- \$14 million for the Weighted Student Formula for public schools, statewide, to address issues such as Elementary and Secondary Education Act Flex requirements, information technology support, and common core standards.
- \$9 million to address increased utility (electricity, gas, water, and sewer) costs for DOE facilities, statewide.
- \$2 million to support the Strive HI Performance system which replaces components of the U.S. DOE's "No Child Left Behind Act."
- \$3.1 million for Charter Schools' per pupil funding based on enrollment projections.
- \$600,000 for the maintenance of the Broadband Technology Opportunities program for the public library system.
- 130.00 permanent, 4.00 temporary positions, and \$5.4 million for administrative and operating expenses for the Department of Hawaiian Home Lands.
- \$3 million for the Statewide Health Information Exchange Infrastructure.
- \$22 million for the Hawaii Health Systems Corporation (HHSC) - Regions.
- \$1 million for the Invasive Species program.
- \$4 million to host the 2016 International Union for Conservation of Nature World Conservation Congress.
- 7.00 positions and \$1 million for the Ocean Resources Management Plan.
- 21.00 permanent positions and \$808,630 to improve mental health treatment at correctional facilities.
- 12.00 permanent positions, 2.00 temporary positions and \$1.1 million for statewide staff support for increased tax collections and processing of claims.

- \$14 million for salary restoration for the University of Hawaii Professional Assembly (UHPA).
- \$19.5 million for UHPA salary increases.

FY 15 EXECUTIVE SUPPLEMENTAL BUDGET – CAPITAL IMPROVEMENTS

PROGRAM (CIP)

For the CIP, proposed amendments total -\$2 million in FY 14 and \$1,847 million in FY 15 from all MOF. This represents a decrease of -0.1% from the FB 2014-15 Executive Budget and an increase of 218.9% over the FY 15 appropriation. Of the FY 15 amount, the net request for G.O. bonds is \$351.7 million, an increase of 90.8% in FY 15, and the request for general funds is \$287.1 million, including conversion of \$187.4 million in FY 15 G.O. bond R&M projects to general funds.

The proposed FY 15 G.O. bond requests include the following New Day Initiatives:

- \$4.5 million for Molokai Irrigation System improvements.
- \$40 million for the acquisition of prime agricultural land in Central Oahu/North Shore region.
- \$3.5 million for the Waimea Homestead Community Agricultural Park.
- \$22 million for construction of the High Technology Development Corporation Technology Center.
- \$2.7 million (and \$7.8 million in federal funds) for energy savings improvements and renewable energy projects for Department of Defense facilities, statewide.
- \$5 million for energy efficiency improvements at DOH facilities, statewide.
- \$5 million for the Watershed Initiative, statewide.

- \$10 million for conservation land purchase, Central Oahu/North Shore region.
- \$5 million for Central Maui Regional Park, Maui.
- \$40 million for Turtle Bay land acquisition, Oahu.

Other major FY 15 G.O. bond requests include the following:

- \$3 million for Aloha Stadium improvements.
- \$19.4 million to be transferred to the Hawaiian Homelands Trust Fund.
- \$7 million to update the Kalaeloa Enterprise Energy Corridor.
- \$7.8 million for low income housing tax credit loans.
- \$2.7 million for Youth Challenge Academy Upgrade and Improvements at Keaukaha Military Reservation, Hawaii.
- \$12 million (and \$48 million in federal funds) to modernize Solomon Elementary School.
- \$50 million (and \$29 million in general funds) for condition, capacity, equity, and program support projects for public schools, statewide.
- \$25 million for air conditioning in schools, statewide.
- \$3.3 million (and \$5.3 million in general funds) for CIP and major R&M for existing infrastructure for Hawaiian Home Lands, respectively.
- \$13 million for Papakolea Sewer Remediation and Slope Stabilization projects.
- \$6 million for decommissioning and restoration of four dams in Anahola, Kauai.
- \$20 million (and \$10 million in general funds) for improvements for HHSC.
- \$20 million (and \$15 million in general funds) for public housing development, improvements and renovations, statewide.

- \$52.5 million (and \$56.3 million in federal funds) for the modernization and integration of the DHS' eligibility system, case management system and KOLEA eligibility system for Medicaid.
- \$25.8 million (and \$25 million in general funds) for capital renewal projects for UH - Systemwide.
- \$28 million (and \$5 million in revenue bond funds) for the College of Pharmacy, New Instructional Facility project at the UH - Hilo.
- \$32 million (and \$8 million in revenue bond funds) to renovate Kuykendall Hall at UH - Manoa.

Major FY 15 CIP requests funded by other MOF:

- \$9.8 million in general funds for the maintenance and remodeling of Department of Accounting and General Services' State facilities.
- \$3 million in general funds for health and safety projects for public libraries, statewide.
- \$280 million in revenue bond funds for the New Mauka Concourse at Honolulu International Airport.
- \$70 million in revenue bond funds for Elliot Street Support Facilities at Honolulu International Airport.
- \$135 million in revenue bond funds for Rental Car Facilities Improvements, statewide.
- \$9.8 million in revenue bond funds and \$39.2 million in federal funds for 16 bridge replacement/improvement projects.
- \$21.7 million in revenue bond funds and \$29.9 million in federal funds for 16 various highway lump sum projects.

- \$198 million in revenue bond funds for deferred maintenance projects for UH - Systemwide.

For a more in-depth summary of what is contained in the Supplemental Budget operating and CIP requests, please refer to “The FY 2015 Executive Supplemental Budget, Budget in Brief” that is available on Budget and Finance’s website at <http://hawaii.gov/budget/supplementalbudget/budgetinbrief>.

MULTI-YEAR GENERAL FUND FINANCIAL PLAN

The financial plan shown in Attachment 1 is based on the most recent COR September 10, 2013 general fund tax and non-tax revenue projections, and updated projections of Judiciary’s non-tax revenues. The tax revenue projections provide for a 4.1% growth for FY 14 over FY 13, a 7.4% growth for FY 15, a 7.7% growth for FY 16, a 5.7% growth for FY 17, a 6.1% growth for FY 18, and a 5.5% growth for FY 19. Also included on the revenue side are \$70.7 million in FY 14 generated from premiums on bonds that were sold in November 2013, various other non-tax revenues not reflected in the COR’s non-tax revenue projections, and estimated revenue impacts from various Administration bills that we will be submitting.

On the expenditure side, the expenditure amounts reflect the FY 15 Executive Supplemental Budget, Judiciary’s supplemental budget, and continuation of existing FY 15 funding levels for the Office of Hawaiian Affairs and Legislature. The specific appropriation line reflects various specific appropriation bills (including collective bargaining costs) that were previously authorized in prior sessions. Also included are emergency appropriations to address the following FY 14 funding shortfalls which require immediate attention:

- \$6 million for DHS to fund MedQUEST computer system upgrades to provide connections to the Hawaii Health Connector as required by the federal Affordable Care Act.
- \$1.2 million for DOH to cover a projected shortfall in funding for developmentally disabled services.
- \$2.6 million for DOH to provide a cash infusion into the Environmental Response Revolving Fund to sustain revolving fund operations.
- \$15.5 million for HHSC to cover projected operational deficits.
- \$0.1 million for the Office of the Governor to address payroll shortfalls.

Additionally, the financial plan does anticipate various specific Administration appropriation bills for FY 15. The most notable are the appropriations to further capitalize the State's emergency reserves - \$50 million to the HHRF and \$50 million to the EBRF.

The financial plan expenditures also includes projected collective bargaining costs of unsettled bargaining units based on settlement parameters of settled bargaining units and preliminary projections of out-year other post-retirement benefit costs.

As can be seen, the general fund financial plan shows respectable positive balances for the current fiscal biennium and the planning period. However, it is important to note that while the fund balances appear very large compared to previous years, fund balances as a percentage of revenues are still only modestly above the minimum target fund balance percentage of 5% from FY 15 through FY 17. Further, reserves as a percentage of revenues are only about one-half of the target reserve percentage.

Overall, we believe that we have presented a workable and realistic financial plan but we are still cautious because preliminary FY 14 general fund tax revenue collections through November 2013 show a softening of -0.6%, primarily due to the transfer of \$55.5 million in GET revenues towards recapitalizing reserves and the timing of the allocations to the county surcharge. In order to reach the projected 4.1% growth in FY 14, general fund tax revenue collections need to increase by 7.2% over last year for the remainder of the fiscal year.

We still have in place a position control policy which was instituted during the federal government shutdown. This policy effectively freezes the filling of vacant positions until January 2, 2014. This will impact current vacant positions, and as such, vacancy reports will be provided to the Legislature approximately late-January 2014 to provide a more accurate depiction of vacancies.

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 that includes all branches of government, the total proposed appropriations from the General Fund are within the expenditure ceilings for both FY 14 and FY 15.

For the Executive Branch, the total proposed appropriations from the General Fund (which include the Executive Supplemental Budget for FY 15 and other specific appropriation measures to be submitted) exceed the appropriation ceiling by \$362.5 million (or 6.2%) in FY 14 and by \$381.9 million (or 5.9%) in FY 15. The FY 14 Executive Branch General Fund Appropriation Ceiling was exceeded with the

FB 2014-15 Executive Budget request due to the substantial costs of social assistance entitlements, support for public education and other critical requirements. The FY 15 excesses are due to the substantial costs of the critical requirements enumerated above.

A summary statement on the General Fund Expenditure Ceiling and Executive Branch Appropriation Ceiling is included in Attachment 2.

THE DEBT LIMIT

Section 13, Article VII of the Hawaii State Constitution, places a debt limit on G.O. 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 G.O. bond debt limit is included in Attachment 3.

CONSTITUTIONAL TAX REFUND/CREDIT/DEPOSIT INTO EMERGENCY FUND REQUIREMENT

Section 6, Article VII of the Hawaii State Constitution, requires the Legislature in the next regular session to provide for a tax refund or tax credit, or make a deposit into one or more emergency funds, as provided by law, whenever the general fund ending balance exceeds 5% of general fund revenues for two successive years. This requirement was not met for FY 12 and FY 13 – the ending balance for FY 12 was 4.9% and for FY 13 was 13.5%. Accordingly, the 2014 Legislature will not be

required to provide for a tax refund or tax credit, or make a deposit into one or more emergency funds.

In closing, I want to again thank you for the opportunity to present this overview. As in past sessions, the Abercrombie Administration will work with you on a continual basis during the 2014 Legislative Session to hone the FY 15 Executive Supplemental Budget and the general fund financial plan.

Attachments

MULTI-YEAR FINANCIAL SUMMARY
GENERAL FUND
FISCAL YEARS 13 - 19
(in millions of dollars)

	<u>Actual*</u> <u>FY 13</u>	<u>Estimated</u> <u>FY 14</u>	<u>Estimated</u> <u>FY 15</u>	<u>Estimated</u> <u>FY 16</u>	<u>Estimated</u> <u>FY 17</u>	<u>Estimated</u> <u>FY 18</u>	<u>Estimated</u> <u>FY 19</u>
REVENUES:							
Executive Branch:							
Tax revenues	5,468.3	5,690.9	6,114.9	6,587.7	6,962.7	7,388.6	7,792.5
Nontax revenues	730.5	520.2	523.2	517.5	523.5	526.9	532.8
Judicial Branch revenues	35.7	36.4	37.0	37.7	38.4	39.1	39.8
Other	-	71.0	(6.0)	13.2	12.2	12.2	12.2
TOTAL REVENUES	6,234.4	6,318.6	6,669.0	7,156.1	7,536.8	7,966.8	8,377.3
EXPENDITURES							
Executive Branch:							
Operating	5,597.9	5,983.4	6,306.8	6,468.1	6,770.8	6,775.3	6,924.3
CIP	-	-	287.1	100.0	100.0	100.0	100.0
Specific appropriations	77.9	273.5	307.1	240.5	300.2	306.5	306.5
Other	-	19.2	36.3	163.0	278.1	388.8	498.4
Sub-total - Exec Branch	5,675.8	6,276.1	6,937.2	6,971.5	7,449.1	7,570.6	7,829.3
Legislative Branch	32.3	33.2	33.8	33.8	33.8	33.8	33.8
Judicial Branch	135.0	148.7	157.0	156.2	156.2	156.2	156.2
OHA	2.4	3.1	2.7	2.7	2.7	2.7	2.7
Counties	2.3	-	-	-	-	-	-
Lapses	(182.1)	(65.0)	(65.0)	(65.0)	(65.0)	(65.0)	(65.0)
TOTAL EXPENDITURES	5,665.7	6,396.1	7,065.9	7,099.3	7,576.9	7,698.4	7,957.0
REV. OVER (UNDER) EXPEND.	568.8	(77.5)	(396.8)	56.8	(40.1)	268.4	420.3
CARRY-OVER BALANCE (DEFICIT)							
Beginning	275.3	844.0	766.5	369.7	426.5	386.4	654.8
Ending	844.0	766.5	369.7	426.5	386.4	654.8	1,075.1
Ending fund balance as % of revenues	13.54%	12.13%	5.54%	5.96%	5.13%	8.22%	12.83%
<i>Emergency & Budget Reserve Fund**</i>	<i>24.2</i>	<i>83.1</i>	<i>141.1</i>	<i>153.4</i>	<i>165.7</i>	<i>175.0</i>	<i>184.4</i>
<i>Hawaii Hurricane Relief Fund**</i>	<i>20.8</i>	<i>126.3</i>	<i>231.7</i>	<i>231.7</i>	<i>231.6</i>	<i>231.6</i>	<i>231.5</i>
<i>Total - Reserves</i>	<i>45.0</i>	<i>209.4</i>	<i>372.8</i>	<i>385.1</i>	<i>397.3</i>	<i>406.6</i>	<i>415.9</i>
<i>Reserves fund balances as % of revenues</i>	<i>0.72%</i>	<i>3.31%</i>	<i>5.59%</i>	<i>5.38%</i>	<i>5.27%</i>	<i>5.10%</i>	<i>4.96%</i>

* unaudited

** reflects proposed additional recapitalization of EBRF and HHRF in FY 15

**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 2009	55,666
Calendar Year 2010	56,827
Calendar Year 2011	60,095
Calendar Year 2012	62,330
Calendar Year 2013*	64,262

* As estimated by the Council on Revenues

2. State Growth

Fiscal Year 2014	3.85%
Fiscal Year 2015	4.19%

B. All Branches of State Government

1. General Fund Appropriations

Fiscal Year 2013	5,847,756,888
Fiscal Year 2014 (incl proposed)	6,424,478,232
Fiscal Year 2015 (incl proposed)	7,066,600,089

2. General Fund Expenditure Ceiling

Fiscal Year 2014	7,828,443,127
Fiscal Year 2015	8,156,442,626

C. Executive Branch

1. Recommended General Fund Appropriations

Fiscal Year 2014	6,256,877,056
Fiscal Year 2015	6,900,920,388

2. Actual General Fund Appropriations

Fiscal Year 2013	5,675,768,855
Fiscal Year 2014	6,279,596,556
Fiscal Year 2015	6,321,944,046

3. Proposed Add'l Appropriations FY 14 (22,719,500)
Proposed Add'l Appropriations FY 15 578,976,342

Total FY 2014	6,256,877,056
Total FY 2015	6,900,920,388

4. General Fund Appropriation Ceiling

Fiscal Year 2014	5,894,391,007
Fiscal Year 2015	6,519,030,400

DECLARATION OF FINDINGS

Pursuant to Section 37-72 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 2014-2015 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 2013-2014 and estimated for each fiscal year from fiscal year 2014-2015 to 2016-2017, is as follows:

<u>Fiscal Year</u>	<u>Net General Fund Revenues</u>	<u>Debt Limit</u>
2010-2011	5,102,646,283	
2011-2012	5,648,800,650	
2012-2013	6,226,008,766	
2013-2014	6,242,189,000	1,046,943,101
2014-2015	6,669,965,000	1,117,214,902
2015-2016	7,139,241,000	1,180,186,704
2016-2017	(not applicable)	1,236,502,692

For fiscal years, 2013-2014, 2014-2015, 2015-2016 and 2016-2017 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 2010-2011, 2011-2012 and 2012-2013 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, 2013, dated October 8, 2013. The net general fund revenues for fiscal years 2013-2014 to 2015-2016 are estimates, based on general fund revenue estimates made as of September 10, 2013, 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 2013-2014 to 2033-2034, the total amount of principal and interest on outstanding general obligation bonds are as follows:

Fiscal Year Ending June 30	Gross			Excludable			Net Debt Service		
	Principal Payable	Interest Payable	Debt Service Payable	Principal Payable	Interest Payable	Debt Service Payable	Principal Payable	Interest Payable	Debt Service Payable
2014	432,315,000	258,138,121	690,453,121	5,765,774	1,853,218	7,618,992	426,549,226	256,284,903	682,834,129
2015	413,970,000	279,706,775	693,676,775	5,684,380	1,694,914	7,379,294	408,285,620	278,011,861	686,297,481
2016	408,265,000	252,882,005	661,147,005	4,392,997	1,540,729	5,933,726	403,872,003	251,341,277	655,213,279
2017	427,575,000	233,549,043	661,124,043	4,162,432	1,409,788	5,572,219	423,412,568	232,139,255	655,551,824
2018	408,850,000	212,456,856	621,306,856	3,111,048	1,274,682	4,385,731	405,738,952	211,182,174	616,921,125
2019	414,835,000	194,547,721	609,382,721	2,230,352	1,153,278	3,383,630	412,604,648	193,394,443	605,999,091
2020	364,550,000	175,148,329	539,698,329	2,339,328	1,044,279	3,383,607	362,210,672	174,104,050	536,314,722
2021	317,035,000	158,679,163	475,714,163	2,453,591	930,000	3,383,591	314,581,409	157,749,162	472,330,572
2022	334,755,000	143,228,692	477,983,692	2,572,569	808,089	3,380,658	332,182,431	142,420,603	474,603,034
2023	332,235,000	127,153,165	459,388,165	2,700,670	680,029	3,380,698	329,534,330	126,473,137	456,007,467
2024	339,895,000	110,896,997	450,791,997	2,835,234	545,738	3,380,972	337,059,766	110,351,259	447,411,025
2025	315,835,000	95,611,091	411,446,091	2,976,674	404,301	3,380,975	312,858,326	95,206,789	408,065,116
2026	307,685,000	80,879,173	388,564,173	3,124,957	255,885	3,380,842	304,560,043	80,623,288	385,183,331
2027	272,105,000	65,971,896	338,076,896	1,135,554	100,184	1,235,738	270,969,446	65,871,712	336,841,158
2028	254,660,000	52,450,830	307,110,830	893,484	43,869	937,352	253,766,516	52,406,961	306,173,478
2029	234,445,000	39,591,103	274,036,103	0	0	0	234,445,000	39,591,103	274,036,103
2030	193,120,000	27,766,861	220,886,861	0	0	0	193,120,000	27,766,861	220,886,861
2031	156,040,000	18,195,588	174,235,588	0	0	0	156,040,000	18,195,588	174,235,588
2032	163,160,000	10,988,310	174,148,310	0	0	0	163,160,000	10,988,310	174,148,310
2033	96,815,000	5,002,523	101,817,523	0	0	0	96,815,000	5,002,523	101,817,523
2034	59,485,000	1,395,505	60,880,505	0	0	0	59,485,000	1,395,505	60,880,505

Additionally, the outstanding principal amount of bonds constituting instruments of indebtedness in which the State has incurred a contingent liability as a guarantor is \$233,500,000, 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, 2013, adjusted for (a) appropriations made in Acts 134 and 133, Session Laws of Hawaii 2013, to be expended in fiscal year 2014-2015 (b) lapses proposed in THE EXECUTIVE BUDGET SUPPLEMENTAL [Budget Period: 2013-2015] (referred to as the "Budget") the total amount of authorized but unissued general obligation bonds amounts to \$2,388,525,208. The amount of general obligation bonds proposed in the Budget is \$539,078,000 (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 \$2,927,603,208.

(5) Proposed general obligation bond issuance. As reported in the Budget, as it applies to the fiscal period 2013-2014 to 2016-2017, the State proposed to issue \$415,205,000 in general obligation bonds during the remainder of fiscal year 2013-2014, \$400,000,000 in general obligation bonds during the first half of fiscal year 2014-2015, and \$400,000,000 in general obligation bonds during the second half of fiscal year 2014-2015, \$425,000,000 in general obligation bonds during the first half of fiscal year 2015-2016, and \$425,000,000 in general obligation bonds during the second half of fiscal year 2015-2016, \$450,000,000 in general obligation bonds during the first half of fiscal year 2016-2017 and \$450,000,000 in general obligation bonds during the second half of fiscal year 2016-2017. It is the practice of the State to issue twenty-year serial bonds with principal repayments beginning the fifth 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 2014-2015, 2015-2016, and 2016-2017, is \$2,965,205,000. The total amount of \$2,965,205,000 which is proposed to be issued through fiscal year 2016-2017 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 \$2,927,603,208 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, 2017, 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 of 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 0.80 percent for approximately ten years from fiscal year 2013-2014 to fiscal year 2022-2023. For the purpose of this declaration, the assumption is made that 0.75 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 2013-2014, 2014-2015, 2015-2016 and 2016-2017 are as follows:

<u>Fiscal Year</u>	<u>Total amount of General Obligation Bonds not otherwise excluded by Article VII, Section 13 of the State Constitution</u>
2013-2014	6,386,115,000
2014-2015	7,180,115,000
2015-2016	8,023,745,000
2016-2017	8,916,995,000

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.

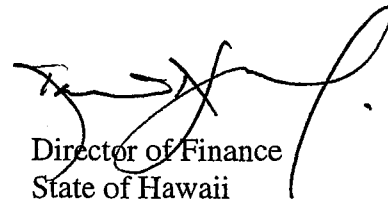
(8) Determination whether the debt limit will be exceeded at the time of issuance. From the foregoing and on the assumption that the bonds identified in paragraph (5) will be issued at an interest rate of 6.00 percent thereafter, as reported in the Budget, it can be determined from the following schedule 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:

<u>Time of Issue and Amount of Issue to be Counted Against Debt Limit</u>	<u>Debt Limit at Time of Issuance</u>	<u>Greatest Amount & Year of Principal & Interest</u>
2nd half FY 2013-2014 \$412,095,000	1,046,943,101	693,676,775 (2014-2015)
1st half FY 2014-2015 \$397,000,000	1,117,214,902	709,669,743 (2016-2017)
2nd half FY 2014-2015 \$397,000,000	1,117,214,902	733,489,743 (2016-2017)
1st half FY 2015-2016 \$421,815,000	1,180,186,704	746,144,193 (2016-2017)
2nd half FY 2015-2016 \$421,815,000	1,180,186,704	748,416,221 (2018-2019)
1st half FY 2016-2017 \$446,625,000	1,236,502,692	775,213,721 (2018-2019)
2nd half FY 2016-2017 \$446,625,000	1,236,502,692	802,011,221 (2018-2019)

(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.



Director of Finance
State of Hawaii