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ADMINISTRATIVE AND RESEARCH OFFICE
BUDGET, PROGRAM PLANNING AND MANAGEMENT DIVISION
FINANCIAL ADMINISTRATION DIVISION
OFFICE OF FEDERAL AWARDS MANAGEMENT (OFAM)

TESTIMONY BY WESLEY K. MACHIDA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE SENATE COMMITTEE ON WAYS AND MEANS AND THE HOUSE COMMITTEE ON FINANCE

January 5, 2017

Chairs Tokuda and Luke and Members of the Committees:

Thank you for the opportunity to present an overview of the Executive's FB 2017-19 biennium budget and the multi-year general fund financial plan. My presentation will cover the following:

- The Administration's overall approach to the State budget;
- Budget considerations and budget transparency issues for the FB 2017-19 budget;
- A brief synopsis of the FB 2017-19 operating and capital improvements program (CIP) budget;
- The multi-year general fund financial plan based on the Council on Revenues' (COR) September 9, 2016 revenue projections; and
- The general fund expenditure ceiling, the requirement to provide a tax refund or credit and deposit to the Emergency and Budget Reserve Fund (EBRF), and the State debt limit.

ADMINISTRATION'S OVERALL APPROACH TO THE STATE BUDGET

The State's fiscal stability is critical to ensure the continuation of essential State services. With the Legislature's strong support, the State has made significant progress in strengthening its reserves and addressing its unfunded liabilities through the Administration's overall budget approach that includes:

- Adoption of a formal budget reserve policy;
- Adoption of a formal debt management policy;
- Strategically targeting annual recurring expenditures;
- Aggressively addressing pension and Other Post-Employment Benefits (OPEB) unfunded liabilities to reduce amounts required in the future; and
- Strengthening budget reserves by depositing additional funds into the EBRF.

In August 2016, the Governor issued Administrative Directive (A.D.) No. 16-03, the State Reserve Policy. A.D. No. 16-03 provides that the State should maintain an amount equal to at least 10% of general fund revenue in the EBRF and an amount equal to at least 5% of general fund revenue as the general fund reserve balance.

Toward that goal, the Legislature authorized $150 million last session for deposit into the EBRF this fiscal year in preparation for future economic downturns. The Administration will also propose to provide additional funding in FY 18 for the EBRF, while resources are available, as we work towards the 10% guideline. Further, the proposed FB 2017-19 Executive Biennium Budget will maintain at least 5% of general fund revenue as the general fund reserve balance (based on the COR's September projections).

The Administration has also finalized the State's debt management policy, pursuant to Act 149, SLH 2015, and the State's debt affordability study, both of which have been submitted to the 2017 Legislature for your consideration.

The Administration will again propose to pay the OPEB annual required contribution (ARC) at the 100% level in FY 18, ahead of FY 19, as originally scheduled. The ARC amortizes the OPEB $9.06 billion unfunded liability over a 30-year period so restructuring payments to pay this down more quickly than required by statute should result in significant future savings to the State.

The Administration has also been working diligently over the past two years to improve our credit ratings for general obligation (G.O.) bonds. As a result of the Administration’s strong budget and financial policies and the actions taken by the Legislature, Hawai’i became the only state to receive multiple rating upgrades in 2016 when both Moody’s Investors Service and Standard and Poors upgraded the State’s G.O. bond ratings from Aa2 to Aa1 and from AA to AA+, respectively, this past September. However, we need to continue these efforts to build up reserves and address unfunded liabilities in order to sustain the State’s hard-won credit ratings.

FB 2017-19 BUDGET CONSIDERATIONS

With the expansion of the visitor and construction industries, both fundamental contributors to Hawai’i’s economy, the State’s economic outlook has been positive. In recent years, however, general fund tax revenue collections have not been clearly reflective of economic activity, especially when measured against prior year fluctuations in collections.

Further, the State is facing significant increases in funding pension and OPEB liabilities. As we consider the needs of our citizens against this financial backdrop, we must determine what is reasonable and sustainable in the future.

With that in mind, the Administration has strived to balance current needs with funding requests that foster the hopes and dreams of Hawai’i residents for the future. The Administration has given priority in this budget to investing in the basic needs of our residents for quality public schools, affordable housing, primary health care, essential social services, and sustainable Hawai'i initiatives.

BUDGET TRANSPARENCY

The Administration is continuing its efforts to increase budget transparency. As such, all departments were instructed to review their FY 17 operating budget details for items which did not align with anticipated expenditures. Requests are included to correct the following:

- Underfunded, unfunded or unbudgeted positions; and
- Specific budget line items which do not align with anticipated expenditures.

Act 160, SLH 2015, which became effective July 1, 2016, provides that no funds shall be expended to fill a permanent or temporary position if the filling of that position causes the position ceiling to be exceeded, with specified exceptions. Act 160 defines "position ceiling" as the maximum number of permanent and temporary positions that an expending agency is authorized for a particular program.

In anticipation of these requirements, all departments were instructed to specifically review their unbudgeted positions to determine which were critical and should continue as budgeted positions. Because the unbudgeted positions are currently funded, only cost neutral requests (i.e., tradeoff/transfer requests with related increases in permanent or temporary position counts) were allowed.

As such, this budget includes requests to convert such unbudgeted positions to budgeted positions. Many other unbudgeted positions are still under review by their respective departments and may take longer to convert depending upon the types of positions.

Act 160 also requires that permanent and temporary position ceilings for each program be provided in the budget documents after July 1, 2016. As such, this budget provides permanent and temporary position ceilings by program ID, department, program structure and means of financing.

THE FB 2017-19 OPERATING BUDGET

The development of the FB 2017-19 Executive Biennium Budget began with an operating base budget amount for each department, equivalent to their FY 17 appropriation, less non-recurring expenses and plus collective bargaining, as applicable. These base budget amounts were adjusted by requests for:

- Trade-offs and transfers and conversion of unbudgeted positions to align the budget with current operational requirements;
- Select fixed costs and entitlements;
- Federal funds based on anticipated grant awards;
- Health and safety or immediate requirements of court orders or federal mandates;
- Full-year funding for new positions;
- Restoration of budget items which had been identified as non-recurring by the Legislature; and
- Other sustainable and reasonable requests necessary for program implementation.

For FB 2017-19, the budget includes $14.254 billion in FY 18 and $14.377 billion in FY 19 from all means of financing for operating costs. This represents an increase of 4% and 4.9%, respectively, over the current level. Of these amounts, the net request for general funds is $7.378 billion in FY 18 and $7.529 billion in FY 19, resulting in increases of 4.9% and 7%, respectively.

A department by department summary of what is contained in the Executive operating budget can be found in “The FB 2017-19 Executive Biennium Budget –

Budget in Brief" that is available on Budget and Finance's website at www.budget.hawaii.gov/budget/.

THE CAPITAL IMPROVEMENTS PROGRAM BUDGET

For the CIP budget, a total of $2,366.5 million in FY 18 and $781.8 million in FY 19 has been recommended. Of these amounts, the requests for G.O. bonds total $1,338.8 million and $151.7 million, respectively.

The Administration proposes to fund a large amount of the requested projects with G.O. bond funds. Many of these requests address health and safety concerns or critical program needs that have been passed over for many years. Costs will continue to mount the longer these projects are delayed. It makes good financial sense to address these projects while the State's bond rating is at its highest, which will help to reduce debt service costs. Despite the large issuance, however, the State will still have a host of unmet needs that will need to be addressed in the future.

The Administration has requested a significant amount of funding – $700 million in G.O. bond funds over the biennium – for projects to address capacity, equity and program support issues at our public schools. The public school heat abatement efforts, including classroom air conditioning, are underway and the Administration has requested increased funds for more energy conservation and heat mitigation projects statewide.

The Administration has also requested a substantial amount of G.O. bond funds for projects at University of Hawaii campuses systemwide. Other requests support the Administration's priorities to provide housing which is affordable, to support the State's agricultural industry, and to support our environmental efforts. Ultimately, all of the requested projects are necessary to maintain and improve the State facilities and resources to allow the State's programs to better serve Hawai'i's people.

A department by department summary of what is contained in the Executive CIP budget can be found in "The FB 2017-19 Executive Biennium Budget – Budget in Brief" that is available on Budget and Finance's website at www.budget.hawaii.gov/budget/.

THE MULTI-YEAR GENERAL FUND FINANCIAL PLAN

The general fund financial plan shown on Attachment A is based on the COR's September 9, 2016 general fund tax and non-tax revenue projections. The tax revenue projections provide for a 5.5% growth rate for FY 17 over FY 16, a 5.0% growth rate for FY 18, and a 4.4% growth rate annually for FY 19 through FY 23. Also included in the revenue section are other non-tax revenues not reflected in the COR's non-tax revenue projection and estimated revenue impacts from various Administration measures that we will be submitting.

It should be pointed out that the COR noted in its letter transmitting the projections that while Hawai'i's economy continues to be strong, there is uncertainty about the future. The COR raised concerns about the economy reaching the end of its expansionary cycle during the seven-year budget period and the construction cycle having possibly reached its peak.

In the expenditure section, the financial plan reflects anticipated expenditures based on the FB 2017-19 Executive Biennium Budget, Judiciary's Biennium Budget, Office of Hawaiian Affairs' Biennium Budget and continuation of FY 17 funding levels for the Legislature. Additionally, the expenditure section reflects various specific appropriation measures that the Administration will also be submitting. It should be noted that no set-asides are included in the financial plan for future collective bargaining requirements beyond the current contracts.

Looking at the bottom of the financial plan you see that we have modified the presentation to reflect the new State Reserve policy to maintain an amount equal to 5%

of prior year revenues as a general fund reserve. Thus, after the “Carry-Over Balance (Deficit), Ending” line, we have added a “GF reserves (5% of prior yr revenues)” line that shows the general fund reserve amount calculated for each respective fiscal year. This is followed by the “END BAL LESS GF RESERVES” line that shows the available balances net of the required reserves for each respective fiscal year.

As you can see, the ending fund balances less general fund reserves declines from $699.0 million in FY 16 to $182.4 million in FY 18 (the first year of the biennium) then rises steadily thereafter. Looking two lines up at the “Revenue Over (Under) Expenditure” line, you can see that the cause of the initial decline in the ending fund balance less general fund reserves is annual expenditures exceeding annual revenues for FY 17 and FY 18.

We would like to caution that although the financial plan submitted to the Legislature in December shows healthy balances for the current fiscal biennium and the planning period, preliminary general fund tax revenue collections for the first 5 months of FY 17 reflect only a 0.7% growth rate over the same period in FY 16. The COR will be meeting on January 4, 2017 to deliberate its January projections.

THE GENERAL FUND EXPENDITURE CEILING

By law, general fund appropriations must comply with the expenditure ceiling requirements that are set forth in Article VII, Section 9 of the Hawaii State Constitution and Section 37-92 of the Hawaii Revised Statutes.

At the aggregate level, including all branches of government, total proposed appropriations from the general fund are within the expenditure ceilings for FYs 17-19.

For the Executive Branch, including appropriations made up to and including the Regular Session of 2016, the Executive Branch appropriation ceiling has already been exceeded for FY 17 by $460.8 million (or 6.5%). Total proposed appropriation measures from the general fund to be submitted to the Legislature during the regular session of 2017 will result in the appropriation ceiling for the Executive Branch to be exceeded in FY 17 by an additional $6.1 million or 0.1%. These proposed FY 17 appropriations are necessary to cover the current estimated requirements for workers' compensation and claims against the State.

For FB 2017-19, total proposed appropriations from the general fund (which include the Executive Budget for FB 2017-19 and other specific appropriation measures to be submitted) are within the appropriation ceiling in both FY 18 and FY 19.

A summary statement on the General Fund Expenditure Ceiling and Executive Branch Appropriation Ceiling is included as Appendix 1.

TAX REFUND OR CREDIT AND DEPOSIT TO THE EBRF

Article VII, Section 6 of the Hawaii State Constitution, requires that whenever the State general fund balance at the close of each of two successive fiscal years exceeds 5% of general fund revenues for each of the two fiscal years, the Legislature must provide for a tax refund or tax credit to the taxpayers of the State or make a deposit into one or more emergency funds, as provided by law. Section 328L-3, Hawaii Revised Statutes, provides that whenever general fund revenues for each of two successive fiscal years exceed revenues for each of the preceding fiscal years by 5%, the Director of Finance is required to transfer 5% of the general fund balance to be deposited into the EBRF provided that the EBRF balance is less than 10% of general fund revenues for the preceding fiscal year.

For FYs 15 and 16, general fund balances were greater than 5% of general fund revenues and general fund revenues were greater than 5% of the previous year's revenues and, for FY 16, the EBRF balance was less than 10% of general fund revenues for FY 15. Accordingly, the Director of Finance transferred 5% of the FY 16 general fund balance ($51.4 million) to the EBRF in FY 17. This action satisfies the Article VII, Section 6, requirements.

THE DEBT LIMIT

Article VII, Section 13 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 as Appendix 2.

In summary, the FB 2017-19 Executive Biennium Budget and multi-year general fund financial plan reflect the Administration's continued commitment to manage with the State's near- and long-term obligations, meet federal and State mandates, and improve operations to deliver needed public services. The Ige Administration will collaborate with the Legislature on a continual basis during the 2017 Session deliberations to shape the State's future.

Thank you again for the opportunity to make this presentation.

Attachments

Attachment A

MULTI-YEAR FINANCIAL SUMMARY
GENERAL FUND
FISCAL YEARS 16 - 23
(in millions of dollars)

	Actual* FY 16	Estimated FY 17	Estimated FY 18	Estimated FY 19	Estimated FY 20	Estimated FY 21	Estimated FY 22	Estimated FY 23
REVENUES:								
Executive Branch:								
Tax revenues	6,194.4	6,535.0	6,861.8	7,163.7	7,478.9	7,808.0	8,151.5	8,510.2
Nontax revenues	853.3	783.8	751.3	769.5	788.3	808.9	811.2	812.3
Judicial Branch revenues	35.1	35.9	36.5	37.2	37.8	38.3	38.9	39.5
Other revenues	(0.8)	73.2	(68.5)	(72.9)	(74.2)	(75.7)	(77.1)	(77.5)
TOTAL REVENUES	7,081.9	7,427.9	7,581.2	7,897.4	8,230.7	8,579.5	8,924.6	9,284.5
EXPENDITURES								
Executive Branch:								
Operating	6,571.0	7,036.6	7,377.8	7,528.5	7,664.3	7,798.9	7,986.2	8,151.8
CIP	-	14.3	12.7	13.0	13.0	13.0	13.0	13.0
Specific appropriations/CB	259.9	454.8	5.0	5.0	5.0	5.0	5.0	5.0
Other expenditures/adjustments	-	98.9	229.9	197.8	201.3	204.8	208.3	212.0
Sub-total - Exec Branch	6,830.9	7,604.6	7,625.4	7,744.4	7,883.7	8,021.8	8,212.6	8,381.8
Legislative Branch	38.6	39.1	39.1	39.1	39.1	39.1	39.1	39.1
Judicial Branch	158.2	162.3	166.1	167.0	167.0	167.0	167.0	167.0
OHA	3.2	3.0	3.5	3.5	3.5	3.5	3.5	3.5
Counties	0.4	-	-	-	-	-	-	-
Lapses	(149.1)	(80.0)	(80.0)	(80.0)	(80.0)	(80.0)	(80.0)	(80.0)
TOTAL EXPENDITURES	6,882.2	7,728.9	7,754.2	7,874.1	8,013.3	8,151.4	8,342.3	8,511.4
REV. OVER (UNDER) EXPEND.	199.7	(301.0)	(173.0)	23.3	217.4	428.1	582.3	773.1
CARRY-OVER BALANCE (DEFICIT)								
Beginning	828.1	1,027.8	726.8	553.8	577.1	794.5	1,222.6	1,804.9
Ending	1,027.8	726.8	553.8	577.1	794.5	1,222.6	1,804.9	2,578.0
GF reserves (5% of prior yr revenues)	328.8	354.1	371.4	379.1	394.9	411.5	429.0	446.2
END BAL LESS GF RESERVES	699.0	372.7	182.4	198.0	399.7	811.1	1,375.9	2,131.7
EBRF (add'l $1M FY16, $201.4M FY17, $25M in FY18)	*100.9*	*310.7*	*342.2*	*348.8*	*355.4*	*362.0*	*368.6*	*375.1*
EBRF fund balance as % of prior yr revenues	*1.53%*	*4.39%*	*4.61%*	*4.60%*	*4.50%*	*4.40%*	*4.30%*	*4.20%*

* unaudited

Note: Due to rounding, details may not add to totals

Appendix 1

SUMMARY STATEMENT OF GENERAL FUND EXPENDITURE CEILING AND APPROPRIATIONS

A. Total State Personal Income and State Growth

Total State Personal Income (in $ millions)	
Calendar Year 2012	61,836
Calendar Year 2013	62,784
Calendar Year 2014	65,993
Calendar Year 2015	69,129
Calendar Year 2016*	72,240
Calendar Year 2017*	75,491

* As estimated by the Council on Revenues Nov. 2016

State Growth	
Fiscal Year 2017	3.80%
Fiscal Year 2018	4.79%
Fiscal Year 2019	4.58%

B. All Branches of Government

General Fund Appropriations	
Fiscal Year 2016 (incl proposed)	7,031,335,288
Fiscal Year 2017 (incl proposed)	7,763,097,287
Fiscal Year 2018 (incl proposed)	7,786,920,235
Fiscal Year 2019 (incl proposed)	7,931,482,365

General Fund Expenditure Ceiling	
Fiscal Year 2017	8,119,864,573
Fiscal Year 2018	8,508,607,013
Fiscal Year 2019	8,898,639,057

C. Executive Branch

Recommended General Fund Appropriations	
Fiscal Year 2018	7,578,165,978
Fiscal Year 2019	7,721,795,344

Actual General Fund Appropriations	
Fiscal Year 2016	6,830,877,224
Fiscal Year 2017	7,551,188,576
Proposed addt'l appropriations	6,700,000
	7,557,888,576

General Fund Appropriation Ceiling	
Fiscal Year 2017	7,090,365,416
Fiscal Year 2018	7,919,726,144
Fiscal Year 2019	7,925,546,878

DECLARATION OF FINDINGS

Pursuant to Section 37-71(d)(6) 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 2017-2019 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 2016-2017 and estimated for each fiscal year from fiscal year 2017-2018 to 2020-2021, is as follows:

Fiscal Year	Net General Fund Revenues	Debt Limit
2013-2014	6,088,589,303	
2014-2015	6,569,327,192	
2015-2016	7,075,981,186	
2016-2017	7,348,225,000	1,216,923,690
2017-2018	7,644,342,000	1,294,601,225
2018-2019	7,964,721,000	1,360,893,805
2019-2020	8,299,432,000	1,415,699,427
2020-2021	(not applicable)	1,474,357,192

For fiscal years 2016-2017, 2017-2018, 2018-2019, 2019-2020 and 2020-2021 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 2013-2014, 2014-2015 and 2015-2016 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, 2016, dated November 23, 2016. The net general fund revenues for fiscal years 2016-2017 to 2019-2020 are estimates, based on general fund revenue estimates made as of September 2, 2016, 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 2016-2017 to 2036-2037, the total amounts of principal and interest on outstanding general obligation bonds are as follows:

Fiscal Year Ending June 30	Gross Principal Payable	Gross Interest Payable	Gross Debt Service Payable	Excludable Principal Payable	Excludable Interest Payable	Excludable Debt Service Payable	Net Debt Service Principal Payable	Net Debt Service Interest Payable	Net Debt Service Debt Service Payable
2017	434,055,000	277,876,295	711,931,295	4,162,432	2,425,206	6,587,638	429,892,568	275,451,089	705,343,657
2018	411,435,000	278,829,526	690,264,526	3,111,048	2,290,101	5,401,150	408,323,952	276,539,425	684,863,376
2019	451,430,000	261,685,381	713,115,381	3,765,352	2,153,347	5,918,699	447,664,648	259,532,035	707,196,683
2020	440,570,000	240,011,214	680,581,214	3,909,328	2,005,448	5,914,776	436,660,672	238,005,766	674,666,438
2021	396,080,000	220,230,855	616,310,855	4,063,591	1,851,519	5,915,110	392,016,409	218,379,336	610,395,745
2022	411,440,000	201,901,178	613,341,178	4,222,569	1,688,758	5,911,327	407,217,431	200,212,420	607,429,852
2023	411,955,000	183,038,245	594,993,245	4,395,670	1,518,997	5,914,667	407,559,330	181,519,247	589,078,578
2024	417,430,000	163,696,513	581,126,513	4,570,234	1,341,732	5,911,966	412,859,766	162,354,781	575,214,547
2025	397,420,000	144,279,470	541,699,470	4,756,674	1,156,470	5,913,144	392,663,326	143,123,000	535,786,326
2026	393,390,000	125,525,114	518,915,114	4,949,957	962,878	5,912,836	388,440,043	124,562,236	513,002,278
2027	361,060,000	107,383,902	468,443,902	3,010,554	756,365	3,766,919	358,049,446	106,627,537	464,676,983
2028	350,320,000	90,490,441	440,810,441	2,823,484	647,663	3,471,146	347,496,516	89,842,778	437,339,295
2029	333,520,000	74,316,503	407,836,503	1,985,000	545,069	2,530,069	331,535,000	73,771,435	405,306,435
2030	301,885,000	59,062,283	360,947,283	2,050,000	484,544	2,534,544	299,835,000	58,577,739	358,412,739
2031	269,605,000	44,691,192	314,296,192	2,110,000	420,825	2,530,825	267,495,000	44,270,367	311,765,367
2032	281,560,000	32,656,565	314,216,565	2,180,000	352,431	2,532,431	279,380,000	32,304,133	311,684,133
2033	219,725,000	22,105,808	241,830,808	2,250,000	280,444	2,530,444	217,475,000	21,825,364	239,300,364
2034	187,185,000	13,725,576	200,910,576	2,325,000	206,100	2,531,100	184,860,000	13,519,476	198,379,476
2035	133,785,000	7,312,218	141,097,218	2,405,000	127,734	2,532,734	131,380,000	7,184,484	138,564,484
2036	84,770,000	3,253,015	88,023,015	2,490,000	43,575	2,533,575	82,280,000	3,209,440	85,489,440
2037	29,675,000	593,500	30,268,500	0	0	0	29,675,000	593,500	30,268,500

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, 2016, adjusted for (a) the issuance of General Obligation Bonds of 2016, Series FG and FJ which closed on October 13, 2016, and (b) lapses proposed in THE MULTI-YEAR PROGRAM AND FINANCIAL PLAN AND EXECUTIVE BUDGET FOR THE PERIOD 2017-2023 [Budget Period: 2017-2019] (referred to as the "Budget"), the total amount of authorized and unissued general obligation bonds is $2,906,537,522. The amount of general obligation bonds proposed in the Budget is $1,490,525,000 (but 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 $4,397,062,522.

(5) Proposed general obligation bond issuance. As reported in the Budget, as it applies to the fiscal period 2016-2017 to 2020-2021, the State proposed to issue $625,000,000 in general obligation bonds during the second half of fiscal year 2016-2017, $500,000,000 in general obligation bonds semiannually during fiscal years 2017-2018, 2018-2019, and 2019-2020, and $400,000,000 in general obligation bonds semiannually during fiscal year 2020-2021. It is the practice of the State to issue twenty-year serial bonds with principal repayments beginning the third 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 2017-2018, 2018-2019, 2019-2020, and 2020-2021, is $4,425,000,000. The total amount of $4,425,000,000, which is proposed to be issued through fiscal year 2020-2021 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 $4,397,062,522, 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, 2021, 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 0.95 percent for approximately ten years from fiscal year 2016-2017 to fiscal year 2025-2026. 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 2016-2017, 2017-2018, 2018-2019, 2019-2020 and 2020-2021 are as follows:

Fiscal Year	Total amount of General Obligation Bonds not otherwise excluded by Article VII, Section 13 of the State Constitution
2016-2017	7,072,110,000
2017-2018	8,064,610,000
2018-2019	9,057,110,000
2019-2020	10,049,610,000
2020-2021	10,843,610,000

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:

Time of Issue and Amount of Issue to be Counted Against Debt Limit	Debt Limit at Time of Issuance	Greatest Amount & Year of Principal & Interest	
2nd half FY 2016-2017 $620,312,500	1,216,923,690	750,334,281	(2018-2019)
1st half FY 2017-2018 $496,250,000	1,294,601,225	767,645,114	(2019-2020)
2nd half FY 2017-2018 $496,250,000	1,294,601,225	797,420,114	(2019-2020)
1st half FY 2018-2019 $496,250,000	1,360,893,805	812,307,614	(2019-2020)
2nd half FY 2018-2019 $496,250,000	1,360,893,805	856,674,228	(2021-2022)
1st half FY 2019-2020 $496,250,000	1,415,699,427	886,449,228	(2021-2022)
2nd half FY 2019-2020 $496,250,000	1,415,699,427	931,597,595	(2022-2023)
1st half FY 2020-2021 $397,000,000	1,474,357,192	956,107,663	(2023-2024)
2nd half FY 2020-2021 $397,000,000	1,474,357,192	992,772,663	(2023-2024)

(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