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# A BILL FOR AN ACT

RELATING TO STATE BONDS.

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

1           SECTION 1. Declaration of findings with respect to the  
2 general obligation bonds authorized by this Act. Pursuant to  
3 article VII, section 13, of the state constitution, which  
4 states: "Effective July 1, 1980, the legislature shall include  
5 a declaration of findings in every general law authorizing the  
6 issuance of general obligation bonds that the total amount of  
7 principal and interest, estimated for such bonds and for all  
8 bonds authorized and unissued and calculated for all bonds  
9 issued and outstanding, will not cause the debt limit to be  
10 exceeded at the time of issuance", the legislature finds and  
11 declares as follows:

12           (1) Limitation on general obligation debt. The debt limit  
13 of the State is set forth in article VII, section 13,  
14 of the state constitution, which states in part:  
15 "General obligation bonds may be issued by the State;  
16 provided that such bonds at the time of issuance would  
17 not cause the total amount of principal and interest



1 payable in the current or any future fiscal year,  
2 whichever is higher, on such bonds and on all  
3 outstanding general obligation bonds to exceed: a sum  
4 equal to twenty percent of the average of the general  
5 fund revenues of the State in the three fiscal years  
6 immediately preceding such issuance until June 30,  
7 1982; and thereafter, a sum equal to eighteen and one-  
8 half percent of the average of the general fund  
9 revenues of the State in the three fiscal years  
10 immediately preceding such issuance." Article VII,  
11 section 13, of the state constitution also provides  
12 that in determining the power of the State to issue  
13 general obligation bonds, certain bonds are  
14 excludable, including "[r]eimburseable general  
15 obligation bonds issued for a public undertaking,  
16 improvement or system but only to the extent that  
17 reimbursements to the general fund are in fact made  
18 from the net revenue, or net user tax receipts, or  
19 combination of both, as determined for the immediately  
20 preceding fiscal year" and bonds constituting  
21 instruments of indebtedness under which the State



1 incurs a contingent liability as a guarantor, but only  
 2 to the extent the principal amount of those bonds does  
 3 not exceed seven per cent of the principal amount of  
 4 outstanding general obligation bonds not otherwise  
 5 excluded under said article VII, section 13, of the  
 6 state constitution.

7 (2) Actual and estimated debt limits. The limit on  
 8 principal and interest of general obligation bonds  
 9 issued by the State, actual for fiscal year 2018-2019  
 10 and estimated for each fiscal year from 2019-2020 to  
 11 2022-2023, is as follows:

12	Fiscal	Net General	
13	<u>Year</u>	<u>Fund Revenues</u>	<u>Debt Limit</u>

14 For fiscal years 2018-2019, 2019-2020, 2020-2021,  
 15 2021-2022, and 2022-2023, respectively, the debt limit  
 16 is derived by multiplying the average of the net  
 17 general fund revenues for the three preceding fiscal  
 18 years by eighteen and one-half per cent. The net  
 19 general fund revenues for fiscal years 2015-2016,  
 20 2016-2017, and 2017-2018 are actual, as certified by  
 21 the director of finance in the Statement of the Debt  
 22



1 Limit of the State of Hawaii as of July 1, 2018, dated  
2 , 2018. The net general fund revenues for  
3 fiscal years 2018-2019 to 2021-2022 are estimates,  
4 based on general fund revenue estimates made as of  
5 , 2019, by the council on revenues, the body  
6 assigned by article VII, section 7, of the state  
7 constitution to make such estimates, and based on  
8 estimates made by the department of budget and finance  
9 of those receipts that cannot be included as general  
10 fund revenues for the purpose of calculating the debt  
11 limit, all of which estimates the legislature finds to  
12 be reasonable.

13 (3) Principal and interest on outstanding bonds applicable  
14 to the debt limit.

15 (A) According to the department of budget and  
16 finance, the total amount of principal and  
17 interest on outstanding general obligation bonds,  
18 after the exclusions permitted by article VII,  
19 section 13, of the state constitution, for  
20 determining the power of the State to issue  
21 general obligation bonds within the debt limit as



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1 of April 1, 2019, is as follows for fiscal year  
 2 2019-2020 to fiscal year 2025-2026:

3	<u>Fiscal</u>	<u>Principal</u>
4	<u>Year</u>	<u>and Interest</u>

5  
 6 The department of budget and finance further  
 7 reports that the amount of principal and interest  
 8 on outstanding bonds applicable to the debt limit  
 9 generally continues to decline each year from  
 10 fiscal year 2026-2027 to fiscal year 2036-2037  
 11 when the final installment of \$                    shall be  
 12 due and payable.

13 (B) The department of budget and finance further  
 14 reports that the outstanding principal amount of  
 15 bonds constituting instruments of indebtedness  
 16 under which the State may incur a contingent  
 17 liability as a guarantor is \$                    , all or  
 18 part of which is excludable in determining the  
 19 power of the State to issue general obligation  
 20 bonds, pursuant to article VII, section 13, of  
 21 the state constitution.



1 (4) Amount of authorized and unissued general obligation  
2 bonds and guaranties and proposed bonds and  
3 guaranties.

4 (A) As calculated from the state comptroller's bond  
5 fund report as of , 2019, adjusted for:

6 (i) Appropriations to be funded by general  
7 obligation bonds or reimbursable general  
8 obligation bonds as provided in House Bill  
9 No. (the General Appropriations Act  
10 of 2019);

11 (ii) Lapses as provided in House Bill No.  
12 (the General Appropriations Act of  
13 2019);

14 (iii) Appropriations to be funded by general  
15 obligation bonds or reimbursable general  
16 obligation bonds as provided in Senate Bill  
17 No. (the Judiciary Appropriations  
18 Act of 2019); and

19 (iv) Lapses as provided in Senate Bill No.  
20 (the Judiciary Appropriations Act of  
21 2019);



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1 the total amount of authorized but unissued  
2 general obligation bonds is \$ . The total  
3 amount of general obligation bonds authorized in  
4 this Act is \$ . The total amount of  
5 general obligation bonds previously authorized  
6 and unissued, as adjusted, and the general  
7 obligation bonds authorized in this Act is  
8 \$ .

9 (B) As reported by the department of budget and  
10 finance the outstanding principal amount of bonds  
11 constituting instruments of indebtedness under  
12 which the State may incur a contingent liability  
13 as a guarantor is \$ , all or part of which  
14 is excludable in determining the power of the  
15 State to issue general obligation bonds, pursuant  
16 to article VII, section 13, of the state  
17 constitution.

18 (5) Proposed general obligation bond issuance. As  
19 reported therein for the fiscal years 2018-2019, 2019-  
20 2020, 2020-2021, 2021-2022, and 2022-2023, the State  
21 proposes to issue \$ in general obligation



1 bonds during the second half of fiscal year 2018-2019,  
2 \$ in general obligation bonds semiannually  
3 during fiscal years 2019-2020 and 2020-2021, and  
4 \$ in general obligation bonds semiannually  
5 during fiscal years 2021-2022 and 2022-2023.

6 Generally, it has been the practice of the State to  
7 issue twenty-year serial bonds with principal  
8 repayments beginning in the third year, the bonds  
9 payable in substantially equal annual installments of  
10 principal and interest payment with interest payments  
11 commencing six months from the date of issuance and  
12 being paid semi-annually thereafter. It is assumed  
13 that this practice will continue to be applied to the  
14 bonds that are proposed to be issued.

15 (6) Sufficiency of proposed general obligation bond  
16 issuance to meet the requirements of authorized and  
17 unissued bonds, as adjusted, and bonds authorized by  
18 this Act. From the schedule reported in paragraph  
19 (5), the total amount of general obligation bonds that  
20 the State proposes to issue during the fiscal years  
21 2018-2019 to 2021-2022 is \$ . An additional





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1           \$           is proposed to be issued in fiscal year  
2           2022-2023. The total amount of \$           that is  
3           proposed to be issued through fiscal year 2021-2022 is  
4           sufficient to meet the requirements of the authorized  
5           and unissued bonds, as adjusted, the total amount of  
6           which is \$           reported in paragraph (4), except  
7           for \$           . It is assumed that the appropriations  
8           to which an additional \$           in bond issuance  
9           needs to be applied will have been encumbered as of  
10          June 30, 2022. The \$           that is proposed to be  
11          issued in fiscal year 2022-2023 will be sufficient to  
12          meet the requirements of the June 30, 2022,  
13          encumbrances in the amount of \$           . The amount  
14          of assumed encumbrances as of June 30, 2022, is  
15          reasonable and conservative, based upon an inspection  
16          of June 30 encumbrances of the general obligation bond  
17          fund as reported by the state comptroller. Thus,  
18          taking into account the amount of authorized and  
19          unissued bonds, as adjusted, and the bonds authorized  
20          by this Act versus the amount of bonds proposed to be  
21          issued by June 30, 2022, and the amount of June 30,



1           2022, encumbrances versus the amount of bonds proposed  
2           to be issued in fiscal year 2022-2023, the legislature  
3           finds that in the aggregate, the amount of bonds  
4           proposed to be issued is sufficient to meet the  
5           requirements of all authorized and unissued bonds and  
6           the bonds authorized by this Act.

7           (7) Bonds excludable in determining the power of the State  
8           to issue bonds. As noted in paragraph (1), certain  
9           bonds are excludable in determining the power of the  
10          State to issue general obligation bonds.

11          (A) General obligation reimbursable bonds can be  
12          excluded under certain conditions. It is not  
13          possible to make a conclusive determination as to  
14          the amount of reimbursable bonds which are  
15          excludable from the amount of each proposed bond  
16          issued because:

17          (i) It is not known exactly when projects for  
18          which reimbursable bonds have been  
19          authorized in prior acts and in this Act  
20          will be implemented and will require the



1 application of proceeds from a particular  
2 bond issue; and  
3 (ii) Not all reimbursable general obligation  
4 bonds may qualify for exclusion.  
5 However, the legislature notes that with respect  
6 to the principal and interest on outstanding  
7 general obligation bonds, according to the  
8 department of budget and finance, the average  
9 proportion of principal and interest that is  
10 excludable each year from the calculation against  
11 the debt limit is per cent for  
12 approximately ten years from fiscal year 2018-  
13 2019 to fiscal year 2027-2028. For the purpose  
14 of this declaration, the assumption is made that  
15 per cent of each bond issue will be  
16 excludable from the debt limit, an assumption  
17 that the legislature finds to be reasonable and  
18 conservative.  
19 (B) Bonds constituting instruments of indebtedness  
20 under which the State incurs a contingent  
21 liability as a guarantor can be excluded, but



1           only to the extent the principal amount of those  
2           guaranties does not exceed seven per cent of the  
3           principal amount of outstanding general  
4           obligation bonds not otherwise excluded under  
5           subparagraph (A) of this paragraph (7); and  
6           provided that the State shall establish and  
7           maintain a reserve in an amount in reasonable  
8           proportion to the outstanding loans guaranteed by  
9           the State as provided by law. According to the  
10          department of budget and finance and the  
11          assumptions presented herein, the total principal  
12          amount of outstanding general obligation bonds  
13          and general obligation bonds proposed to be  
14          issued, which are not otherwise excluded under  
15          article VII, section 13, of the state  
16          constitution for the fiscal years 2018-2019,  
17          2019-2020, 2020-2021, 2021-2022, and 2022-2023  
18          are as follows:



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	Total amount of
	General Obligation Bonds
	not otherwise excluded by
	Article VII, Section 13
	<u>of the State Constitution</u>
<u>Fiscal Year</u>	

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 per cent 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, 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,



1 section 13, of the state constitution will become due  
 2 and payable in the same fiscal year in which the  
 3 greatest amount of principal and interest on general  
 4 obligation bonds, after exclusions, occurs. Thus,  
 5 based on such assumptions and on the determination in  
 6 paragraph (8), all of the outstanding guaranties can  
 7 be excluded.

8 (8) Determination whether the debt limit will be exceeded  
 9 at the time of issuance. From the foregoing and on  
 10 the assumption that all of the bonds identified in  
 11 paragraph (5) will be issued at an interest rate not  
 12 to exceed per cent in fiscal years 2019 through  
 13 2023, it can be determined from the following schedule  
 14 that the bonds that are proposed to be issued, which  
 15 include all authorized and unissued bonds previously  
 16 authorized, as adjusted, general obligation bonds, and  
 17 instruments of indebtedness under which the State  
 18 incurs a contingent liability as a guarantor  
 19 authorized in this Act, will not cause the debt limit  
 20 to be exceeded at the time of such issuance:



1			Greatest Amount
2	Time of Issuance		and Year of
3	and Amount to be	Debt Limit	Highest Principal
4	Counted Against	at Time of	and Interest
5	<u>Debt Limit</u>	<u>Issuance</u>	<u>on Bonds and Guaranties</u>

6  
7 (9) Overall and concluding finding. From the facts,  
8 estimates, and assumptions stated in this declaration  
9 of findings, the conclusion is reached that the total  
10 amount of principal and interest estimated for the  
11 general obligation bonds authorized in this Act, and  
12 for all bonds authorized and unissued, and calculated  
13 for all bonds issued and outstanding, and all  
14 guaranties, will not cause the debt limit to be  
15 exceeded at the time of issuance.

16 SECTION 2. The legislature finds the bases for the  
17 declaration of findings set forth in this Act are reasonable.  
18 The assumptions set forth in this Act with respect to the  
19 principal amount of general obligation bonds that will be  
20 issued, the amount of principal and interest on reimbursable  
21 general obligation bonds that are assumed to be excludable, and  
22 the assumed maturity structure shall not be deemed to be



1 binding, it being the understanding of the legislature that such  
2 matters must remain subject to substantial flexibility.

3 SECTION 3. Authorization for issuance of general  
4 obligation bonds. General obligation bonds may be issued as  
5 provided by law in an amount that may be necessary to finance  
6 projects authorized in House Bill No. (the General  
7 Appropriations Act of 2019) and Senate Bill No. (the  
8 Judiciary Appropriations Act of 2019); passed by the legislature  
9 during this regular session of 2019 and designated to be  
10 financed from the general obligation bond fund and from the  
11 general obligation bond fund with debt service cost to be paid  
12 from special funds; provided that the sum total of general  
13 obligation bonds so issued shall not exceed \$ .

14 Any law to the contrary notwithstanding, general obligation  
15 bonds may be issued from time to time in accordance with section  
16 39-16, Hawaii Revised Statutes, in such principal amount as may  
17 be required to refund any general obligation bonds of the State  
18 of Hawaii heretofore or hereafter issued pursuant to law.

19 SECTION 4. The provisions of this Act are declared to be  
20 severable and if any portion thereof is held to be invalid for





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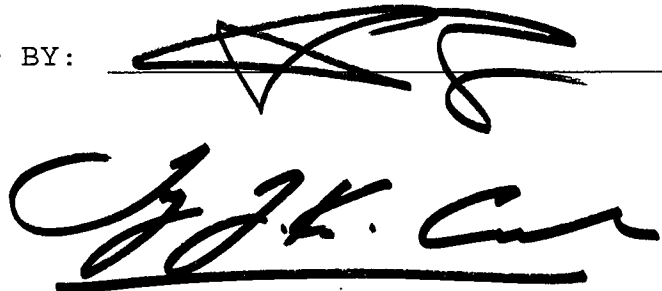
1 any reason, the validity of the remainder of this Act shall not  
2 be affected.

3 SECTION 5. In printing this Act, the revisor of statutes  
4 shall substitute in section 1 and section 3 the corresponding  
5 act numbers for bills identified therein.

6 SECTION 6. This Act shall take effect upon its approval.

7

INTRODUCED BY:

A handwritten signature in black ink, appearing to read "J. J. Carr", is written over a horizontal line. The signature is stylized and cursive.

JAN 17 2019



# H.B. NO. 120

**Report Title:**

State Bonds; State Budget

**Description:**

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

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

