



**STATE OF HAWAII
DEPARTMENT OF BUDGET AND FINANCE**

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EMPLOYEES' RETIREMENT SYSTEM
HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
OFFICE OF THE PUBLIC DEFENDER

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

**TESTIMONY BY SCOTT A. KAMI
ACTING DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE SENATE COMMITTEE ON WAYS AND MEANS AND
THE HOUSE COMMITTEE ON FINANCE**

January 3, 2019

Chairs Dela Cruz and Luke and Members of the Committees:

Thank you for the opportunity to present an overview of the Executive's FB 2019-21 biennium budget and the multi-year general fund financial plan. My presentation will cover the following:

- I. Moving towards financial stability;
- II. The Administration's overall approach to the State budget;
- III. Budget transparency issues for the FB 2019-21 budget;
- IV. Revenue projections and revenue collections;
- V. A brief synopsis of the FB 2019-21 operating and capital improvements program (CIP) budget;
- VI. The multi-year general fund financial plan based on the Council on Revenues' (COR) September 6, 2018 revenue projections; and
- VII. 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.

I. **MOVING TOWARDS FINANCIAL STABILITY**

Our Administration's focused approach to the budget over our first term improved the State's fiscal position. We adopted formal budget reserve and debt management

policies and made considerable progress addressing our unfunded liabilities and strengthening our reserves with the Legislature's support.

Together, we have built up our EBRF to \$375.7 million in preparation for future economic downturns. In 2017, Moody's Analytics "stress tested" all 50 states and assessed that Hawai'i was one of 16 states that was prepared for a recession. This past September, Moody's Analytics determined that Hawai'i was one of 23 states prepared for a moderate recession after applying similar stress tests.

The State is committed to fund the annual required contribution (ARC) for other post-employment benefits (OPEB) unfunded liabilities. These payments, which will gradually increase to almost a billion dollars annually by the end of the planning period in 2025, will result in full funding of OPEB over the 30-year period and will substantially reduce OPEB costs in the future.

Our Administration implemented strong budget and financial policies and has continuously worked to improve and maintain the State's credit ratings for general obligation (G.O.) bonds. With actions taken by the Legislature, the State of Hawai'i currently has the highest bond rating in its history of AA+. This higher bond rating allows the State to issue G.O. bonds at lower interest rates, freeing up general funds that would have been used for debt service to address the State's other critical needs like education, housing, and homelessness while providing funding for much needed capital improvements at a lower cost to taxpayers.

II. ADMINISTRATION'S OVERALL APPROACH TO THE STATE BUDGET

Maintaining the State's fiscal stability is critical to ensuring the continuation of essential State services. In developing the Executive Budget, the Administration took a hard look at the State's current fiscal health and potential upcoming fiscal challenges to ensure that the State's fiscal health is maintained through FB 2019-21 and beyond.

Since taking office four years ago, our Administration has generally approached the budget in a cautious manner, often because fluctuating general fund revenue growth did not reflect the State's economic situation and expansion of the economy. As in past years, we are closely monitoring general fund tax revenues, as FY 19 collections

through November 2018 are 4.8 percent more than last year, after two months of less than 1 percent growth and an uptick to 3.8 percent in October 2018. Changes in revenue growth over a fiscal year have often proven to be unpredictable.

The State ended FY 18 with a general fund balance of approximately \$750 million. While this carryover balance will help to support the increasing costs of State programs, it remains a concern that State expenditures are still projected to exceed revenues until FY 21. The State's commitments to fund its unfunded pension and OPEB liabilities and collective bargaining increases have significantly impacted the operating budget.

For many programs, federal funding has become uncertain or nonexistent. Consequently, the State must support the costs of federal programs which the State deems critical when federal funding has been reduced or discontinued. The impact of significant federal fund reductions is twofold, as the State will bear the economic impact of the reduced funding while providing additional funds for federal programs.

The constant instability in Congress adds another layer of uncertainty. Although most major federal programs have been funded through the current federal fiscal year, many discretionary and mandatory programs are operating on a continuing resolution. Problems could arise should a continuing resolution or federal FY 19 funding not be passed by Congress in a timely manner.

There are many competing demands for State resources, and providing the necessary funding for fixed costs and entitlements (i.e., debt service, pension and retirement benefits, Medicaid) and priority needs such as schools, housing, health and human services often leaves little for other programs. There are many pent-up demands, often for programs which are still rebuilding after suffering the impact of the Great Recession. It has been a gradual process to restore these programs, many of which provide essential services and have been unable to fulfill the full scope of their statutory responsibilities.

These factors reinforce the continual need to be fiscally prudent and responsible with our expenditures to ensure the State's fiscal stability through FB 2019-21 and beyond. We must control our expenditures to prepare, to the extent possible, for uncertain revenue collections and reductions in federal funds, while supporting the increased cost of our daily operations.

We continue to work to align resources to address our most critical issues and better serve the public. As such, the Executive Budget proposes limited general fund appropriations for FB 2019-21 beyond those for non-discretionary costs.

III. BUDGET TRANSPARENCY

To increase budget transparency, departments were instructed to review their FY 19 operating budget details for items which did not align with anticipated expenditures. Requests are included to correct the following:

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

Section 37-74(f), Hawai'i Revised Statutes (HRS), and Section 63 of Act 49, SLH 2017, as amended by Act 53, SLH 2018, prohibit funds to be expended to fill a permanent or temporary position for the lowest level of a program if the filling of that position causes the position ceiling for that level of the program to be exceeded with specified exceptions. "Position ceiling" is defined as the maximum number of permanent and temporary positions that an expending agency is authorized for a particular program.

As such, 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., trade-off/transfer requests with related increases in permanent or temporary position counts) were allowed.

Hence, the Executive 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.

IV. REVENUE PROJECTIONS AND REVENUE COLLECTIONS

At its September 6, 2018 meeting, the COR maintained its general fund tax revenue growth projection for FY 19 of 5.0 percent. The COR expects slightly lower growth for FY 19 following the robust growth of FY 18 of 7.6 percent, 0.3 percent higher than the COR had projected. For FY 20 through FY 24, the COR projected 4.0 percent growth annually. In addition, the COR forecasted growth of 4.0 percent for FY 25, which was not previously projected.

While the COR believes that Hawai'i's economy continues to be strong, it is uncertain about the future. The Council raised concerns about the economy reaching the end of its expansionary cycle during the seven-year budget window and other international, national and State events affecting Hawai'i's economy. However, it also noted that visitor arrivals and expenditures, job counts and construction activity continued to be strong.

Preliminary actual general fund tax revenue growth for FY 19 is approaching the 5.0 percent growth rate projected by the COR, coming in at 4.8 percent through November 2018. However, growth for the first four months of FY 19 has been uneven, with two months at less than 1 percent, then an uptick to 3.8 percent in October 2018 and another uptick to 4.8 percent in November 2018. A major concern is that general excise tax revenue growth still lags at 2.2 percent for November 2018 while growth for September and October was negative.

Given inconsistent revenue collections and lagging general excise tax collections to date, the Administration, with an abundance of caution, has based the Executive Budget for FB 2019-21 and the Program and Financial Plan for the period 2019-25 on a

3.5 percent growth rate for FY 19. This growth rate was in line with revenue collections through October 2018, which was 3.8 percent, at the time decisions were being made on the Executive Budget.

V.a) THE FB 2019-21 OPERATING BUDGET

The development of the Executive Budget for FB 2019-21 began with an operating base budget amount for each department, equivalent to its FY 19 appropriation, less non-recurring expenses, plus collective bargaining (except for federal and other federal funds) and other adjustments, as applicable. These base budget amounts were adjusted by requests that included:

- Governor's initiatives;
- 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 2019-21, the budget includes \$15.475 billion in FY 20 and \$15.699 billion in FY 21 from all means of financing (MOF) for operating costs. This represents increases of \$1.037 billion (7.2 percent) and \$1.261 billion (8.7 percent), respectively, over the current level appropriated for FY 19 in Act 49, SLH 2017, as amended by Act 53, SLH 2018. Of these amounts, the net request for general funds is \$8.046 billion in FY 20 and \$8.295 billion in FY 21, resulting in increases of \$534.1 million (7.1 percent) and \$783.0 million (10.4 percent), 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/.

V.b) THE CAPITAL IMPROVEMENTS PROGRAM BUDGET

For the CIP budget, a total of \$2.021 billion in FY 20 and \$1.483 billion in FY 21 has been recommended. Of these amounts, the requests for G.O. bonds total \$978.2 million and \$731.5 million, respectively.

The Executive Budget for FB 2019-21 CIP requests reflect our Administration’s core values. A significant amount of the requested G.O. bond funds are for projects to address health and safety, capacity, equity and program support issues at our public schools. We have also requested funding to convert 22 classrooms statewide to pre-kindergarten classrooms.

There are many UH system projects that will provide needed improvements for health and safety and program needs. Other requests support our Administration’s priorities of providing affordable housing and our Sustainable Hawai’i Initiative. To continue our efforts to relocate the O’ahu Community Correctional Center, funds have been requested to pursue alternative financing for the project.

We are requesting \$125 million for a State match to a \$345 million federal appropriation for a flood mitigation project along the Ala Wai Canal. We are in negotiations with the City and County of Honolulu and the US Army Corps of Engineers regarding project implementation.

Ultimately, all of the requested projects are necessary to maintain and improve our State facilities and resources to allow our programs to better serve Hawai’i’s people. It makes good financial sense to address these priority needs while our bond rating is at its highest, which will help reduce debt service costs.

A department by department summary of what is contained in the Executive CIP budget can be found in “The FB 2019-21 Executive Biennium Budget – Budget in Brief” that is available on Budget and Finance’s website at www.budget.hawaii.gov/budget/.

VI. THE MULTI-YEAR GENERAL FUND FINANCIAL PLAN

The general fund financial plan shown on Attachment A is based on the COR's September 6, 2018 general fund tax and non-tax revenue projections discussed previously. 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.

In the expenditure section, the financial plan reflects anticipated expenditures based on the FB 2019-21 Executive Biennium Budget, Judiciary's Biennium Budget, Office of Hawaiian Affairs' Biennium Budget and continuation of FY 18 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.

As can be seen, the ending fund balances based on the COR's projected growth of 5.0 percent for FY 19 (which is just above the dotted line) declines from \$750.3 million in FY 19 to \$582.6 million in FY 20 (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 is annual expenditures exceeding annual revenues for FY 19 and FY 20.

The adjustment below the dotted line reflects the estimated revenue loss if revenue growth for FY 19 was 3.5 percent rather than 5.0 percent. As indicated previously, decision-making on the Executive Budget was based on this lower level of revenue growth. At the 3.5 percent growth level, the projected fund balances declines from \$750.3 million in FY 18 to a low of \$267.8 million in FY 21, increases slightly to \$290.7 million in FY 22, and rises thereafter. Looking at the "Revenue Over (Under) Expenditure" line, annual expenditures exceed annual revenues from FY 19 through FY 21.

Based on the COR's January projections, the Administration may be submitting budget message adjustments to: reduce amounts requested if the January projections for FY 19 are substantially below 3.5 percent; or to provide for selected additional requests if projections are around the 5.0 percent level. The COR will be meeting on January 9, 2019 to review its revenue projections.

VII.a) THE GENERAL FUND EXPENDITURE CEILING

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

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 19, FY 20 and FY 21.

For the Executive Branch, total appropriations from the general fund (which include the Executive Budget for FB 2019-21 and other specific appropriation measures to be submitted) are also within the Executive Branch's appropriation ceiling for FY 19, FY 20 and FY 21.

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

VII.b) TAX REFUND OR CREDIT AND DEPOSIT TO THE EBRF

Article VII, Section 6, of the Hawai'i State Constitution, requires that whenever the State general fund balance at the close of each of two successive fiscal years exceeds 5 percent 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, HRS, provides that whenever general fund revenues for each of two successive fiscal years exceeds revenues for each of the preceding fiscal years by 5 percent, 5 percent of the general fund balance shall be deposited into the EBRF.

For FYs 17 and 18, general fund balances were greater than 5 percent of general fund revenues. FY 17 general fund revenues did not exceed the previous year's revenues by 5 percent or more and FY 18 general fund revenues exceeded the previous year's revenues by 5 percent. Accordingly, the 2019 Legislature must provide for a tax refund or tax credit or appropriate general funds for the prepayment of either or both of: 1) debt service; or 2) pension or OPEB liabilities; but need not make a deposit into the EBRF.

VII.c) THE DEBT LIMIT

Section 13 of Article VII of the Hawai'i 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 Supplemental 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 2019-21 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 2019 Session deliberations to shape the State's future.

Thank you again for the opportunity to make this presentation.

Attachments

MULTI-YEAR FINANCIAL SUMMARY
GENERAL FUND
FISCAL YEARS 18-25
(in millions of dollars)

	<u>Actual*</u> <u>FY 18</u>	<u>Estimated</u> <u>FY 19</u>	<u>Estimated</u> <u>FY 20</u>	<u>Estimated</u> <u>FY 21</u>	<u>Estimated</u> <u>FY 22</u>	<u>Estimated</u> <u>FY 23</u>	<u>Estimated</u> <u>FY 24</u>	<u>Estimated</u> <u>FY 25</u>
REVENUES:								
Executive Branch:								
Tax revenues	6,795.5	7,135.8	7,421.3	7,718.1	8,026.8	8,347.9	8,681.8	9,029.1
Nontax revenues	830.5	652.9	695.8	722.4	733.9	754.3	755.3	755.2
Judicial Branch revenues	34.5	33.0	33.0	33.0	33.0	33.0	33.0	33.0
Other revenues	0.0	15.3	(15.6)	(25.5)	(30.1)	(34.7)	(39.3)	(44.0)
TOTAL REVENUES	7,660.4	7,837.1	8,134.5	8,448.0	8,763.7	9,100.6	9,430.9	9,773.3
EXPENDITURES								
Executive Branch:								
Operating	7,248.5	7,512.2	7,864.0	8,066.2	8,232.3	8,392.4	8,555.6	8,691.6
CIP	10.5	-	-	-	-	-	-	-
Specific appropriation/CB	441.5	290.8	188.4	234.3	249.9	249.9	249.9	249.9
Other expenditures/adjustments	0.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Sub-total - Exec Branch	7,700.5	7,808.0	8,057.4	8,305.5	8,487.2	8,647.2	8,810.5	8,946.5
Legislative Branch	42.0	42.0	41.6	41.6	41.6	41.6	41.6	41.6
Judicial Branch	165.7	170.3	172.4	173.4	173.4	173.4	173.4	173.4
OHA	3.0	3.0	4.0	4.0	4.0	4.0	4.0	4.0
Counties	0.6	0.6	-	-	-	-	-	-
Lapses	(107.8)	(80.0)	(80.0)	(80.0)	(80.0)	(80.0)	(80.0)	(80.0)
TOTAL EXPENDITURES	7,803.9	7,943.9	8,195.4	8,444.5	8,626.2	8,786.3	8,949.5	9,085.5
REV. OVER (UNDER) EXPEND.	(143.5)	(106.8)	(60.9)	3.5	137.5	314.4	481.3	687.8
CARRY-OVER BALANCE (DEFICIT)								
Beginning	893.8	750.3	643.5	582.6	586.1	723.5	1,037.9	1,519.3
Ending	750.3	643.5	582.6	586.1	723.5	1,037.9	1,519.3	2,207.0
<hr/>								
If FY19 tax revenues are 3.5%	0.0	(101.9)	(106.0)	(110.3)	(114.7)	(119.3)	(124.0)	(129.0)
REV. OVER (UNDER) EXPEND.	(143.5)	(208.7)	(166.9)	(106.8)	22.8	195.1	357.3	558.8
CARRY-OVER BALANCE (DEFICIT)								
Beginning	828.1	750.3	541.6	374.6	267.8	290.7	485.8	843.1
Ending	750.3	541.6	374.6	267.8	290.7	485.8	843.1	1,401.9
<i>EBRF (add'l \$58.7 M in FY18)</i>	<i>375.7</i>	<i>384.2</i>	<i>392.7</i>	<i>401.2</i>	<i>409.7</i>	<i>418.2</i>	<i>426.8</i>	<i>435.3</i>
<i>EBRF fund balance as % of prior yr revenues</i>	<i>5.11%</i>	<i>5.02%</i>	<i>5.01%</i>	<i>4.93%</i>	<i>4.85%</i>	<i>4.77%</i>	<i>4.69%</i>	<i>4.62%</i>

* unaudited

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

**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 2014	66,899
Calendar Year 2015	70,323
Calendar Year 2016	72,650
Calendar Year 2017	75,355
Calendar Year 2018*	77,842
Calendar Year 2019*	80,411

* As estimated by the Council on Revenues Nov. 2018

State Growth	
Fiscal Year 2019	4.05%
Fiscal Year 2020	3.44%
Fiscal Year 2021	3.44%

B. All Branches of Government

General Fund Appropriations	
Fiscal Year 2018 (incl proposed)	7,911,704,985
Fiscal Year 2019 (incl proposed)	8,023,995,963
Fiscal Year 2020 (incl proposed)	8,275,167,525
Fiscal Year 2021 (incl proposed)	8,519,635,237

General Fund Expenditure Ceiling	
Fiscal Year 2019	8,962,245,278
Fiscal Year 2020	9,270,903,032
Fiscal Year 2021	9,589,928,073

C. Executive Branch

Recommended General Fund Appropriations	
Fiscal Year 2020	8,057,100,833
Fiscal Year 2021	8,300,599,850

Actual General Fund Appropriations	
Fiscal Year 2018	7,700,439,293
Fiscal Year 2019	7,799,150,377
Proposed add'l appropriations	8,789,692
	<u>7,807,940,069</u>

General Fund Appropriation Ceiling	
Fiscal Year 2019	8,012,307,020
Fiscal Year 2020	8,076,843,805
Fiscal Year 2021	8,334,357,204

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 2018-2019 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 2015-2016 and estimated for each fiscal year from fiscal year 2018-2019 to 2020-2021, is as follows:

<u>Fiscal Year</u>	<u>Net General Fund Revenues</u>	<u>Debt Limit</u>
2014-2015	6,569,327,192	
2015-2016	7,075,981,186	
2016-2017	7,346,008,625	
2017-2018	7,358,389,000	1,294,464,549
2018-2019	7,663,351,000	1,343,123,360
2019-2020	7,982,509,000	1,379,344,499
2020-2021	(not applicable)	1,418,595,355

For fiscal years, 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 2014-2015, 2015-2016 and 2016-2017 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, 2017, dated November 17, 2017. The net general fund revenues for fiscal years 2017-2018 to 2019-2020 are estimates, based on general fund revenue estimates made as of September 7, 2017, 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 2017-2018 to 2036-2037, 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
2018	412,445,000	300,793,962	713,238,962	2,122,539	2,273,810	4,396,349	410,322,461	298,520,153	708,842,613
2019	450,730,000	287,001,921	737,731,921	3,762,919	2,152,958	5,915,877	446,967,081	284,848,963	731,816,044
2020	480,400,000	265,364,003	745,764,003	3,906,771	2,005,180	5,911,951	476,493,229	263,358,823	739,852,052
2021	437,055,000	244,425,652	681,480,652	4,060,903	1,851,380	5,912,282	432,994,097	242,574,272	675,568,370
2022	434,165,000	224,878,670	659,043,670	4,222,554	1,688,753	5,911,307	429,942,446	223,189,917	653,132,363
2023	435,590,000	205,128,922	640,718,922	4,395,654	1,518,993	5,914,648	431,194,346	203,609,928	634,804,274
2024	442,155,000	184,694,820	626,849,820	4,570,218	1,341,728	5,911,946	437,584,782	183,353,091	620,937,873
2025	423,265,000	164,136,037	587,401,037	4,756,657	1,156,468	5,913,124	418,508,343	162,979,569	581,487,913
2026	420,520,000	144,120,614	564,640,614	4,949,940	962,877	5,912,816	415,570,060	143,157,737	558,727,797
2027	389,515,000	124,646,464	514,161,464	3,010,535	756,364	3,766,900	386,504,465	123,890,100	510,394,565
2028	380,165,000	106,360,027	486,525,027	2,823,484	647,663	3,471,146	377,341,516	105,712,364	483,053,880
2029	364,845,000	88,709,983	453,554,983	1,985,000	545,069	2,530,069	362,860,000	88,164,914	451,024,914
2030	334,655,000	71,998,073	406,653,073	2,050,000	484,544	2,534,544	332,605,000	71,513,529	404,118,529
2031	303,650,000	56,342,719	359,992,719	2,110,000	420,825	2,530,825	301,540,000	55,921,894	357,461,894
2032	317,030,000	42,892,882	359,922,882	2,180,000	352,431	2,532,431	314,850,000	42,540,450	357,390,450
2033	258,015,000	30,875,715	288,890,715	2,250,000	280,444	2,530,444	255,765,000	30,595,271	286,360,271
2034	227,120,000	20,849,468	247,969,468	2,325,000	206,100	2,531,100	224,795,000	20,643,368	245,438,368
2035	175,710,000	12,445,289	188,155,289	2,405,000	127,734	2,532,734	173,305,000	12,317,555	185,622,555
2036	128,370,000	6,709,902	135,079,902	2,490,000	43,575	2,533,575	125,880,000	6,666,327	132,546,327
2037	75,020,000	2,306,970	77,326,970	0	0	0	75,020,000	2,306,970	77,326,970

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, 2017, adjusted for (a) appropriations made in Acts 49 and 195, Session Laws of Hawaii 2017, to be expended in fiscal year 2018-2019 (b) lapses proposed in THE EXECUTIVE BUDGET SUPPLEMENTAL [Budget Period: 2017-2019] (referred to as the "Budget") the total amount of authorized but unissued general obligation bonds amounts to \$3,147,567,789. The amount of general obligation bonds proposed in the Budget is \$620,048,000 (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 \$3,767,615,789.

(5) Proposed general obligation bond issuance. As reported in the Budget, as it applies to the fiscal period 2017-2018 to 2020-2021, the State proposed to issue \$805,000,000 in general obligation bonds during the remainder of fiscal year 2017-2018, \$475,000,000 in general obligation bonds during the first half of fiscal year 2018-2019, and \$475,000,000 in general obligation bonds during the second half of fiscal year 2018-2019, \$500,000,000 in general obligation bonds during the first half of fiscal year 2019-2020, and \$500,000,000 in general obligation bonds during the second half of fiscal year 2019-2020, \$500,000,000 in general obligation bonds during the first half of fiscal year 2020-2021 and \$550,000,000 in general obligation bonds during the second half of fiscal year 2020-2021. The State anticipates issuing 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 2018-2019 2019-2020, and 2020-2021, is \$3,805,000,000. The total amount of \$3,805,000,000 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 \$3,767,615,789 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 0.90 percent for approximately ten years from fiscal year 2017-2018 to fiscal year 2026-2027. 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 2017-2018, 2018-2019, 2019-2020 and 2020-2021 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>
2017-2018	7,388,775,000
2018-2019	8,331,655,000
2019-2020	9,324,155,000
2020-2021	10,366,280,000

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 5.75 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 2017-2018 \$798,965,000	1,294,464,549	791,704,491 (2019-2020)
1st half FY 2018-2019 \$471,440,000	1,343,123,360	805,258,391 (2019-2020)
2nd half FY 2018-2019 \$471,440,000	1,343,123,360	818,429,758 (2021-2022)
1st half FY 2019-2020 \$496,250,000	1,379,344,499	846,964,133 (2021-2022)
2nd half FY 2019-2020 \$496,250,000	1,379,344,499	891,482,659 (2022-2023)
1st half FY 2020-2021 \$496,250,000	1,418,595,355	924,178,826 (2023-2024)
2nd half FY 2020-2021 \$545,875,000	1,418,595,355	973,651,639 (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