



EXECUTIVE CHAMBERS
HONOLULU

DAVID Y. IGE
GOVERNOR

GOV. MSG. NO. 1102

June 23, 2020

The Honorable Ronald D. Kouchi,
President
and Members of the Senate
Thirtieth State Legislature
State Capitol, Room 409
Honolulu, Hawai'i 96813

The Honorable Scott K. Saiki,
Speaker and Members of the
House of Representatives
Thirtieth State Legislature
State Capitol, Room 431
Honolulu, Hawai'i 96813

Dear President Kouchi, Speaker Saiki, and Members of the Legislature:

I am transmitting herewith HB 1631 SD1, without my approval and with the statement of objections relating to the measure.

HB 1631 SD1

RELATING TO STATE BONDS.

Sincerely,

DAVID Y. IGE
Governor, State of Hawai'i

EXECUTIVE CHAMBERS

HONOLULU

June 22nd, 2020

STATEMENT OF OBJECTIONS TO HOUSE BILL NO. 1631

Honorable Members
Thirtieth Legislature
State of Hawai'i

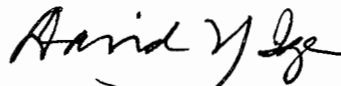
Pursuant to Section 16 of Article III of the Constitution of the State of Hawai'i, I am returning herewith, without my approval, House Bill No. 1631, entitled "A Bill for an Act Relating to State Bonds."

The purpose of this bill is to authorize the issuance of general obligation bonds by the State. In addition, this bill authorizes the borrowing of moneys from the Municipal Liquidity Facility under section 13(3) of the Federal Reserve Act, 12 U.S.C. § 343(3). Further, this bill declares the Legislature's findings with respect to these bond authorizations as required by Article VII, Section 13 of the Constitution of the State of Hawai'i.

This bill is objectionable because, due to revisions in the State's bond issuance plan, the State plans to issue an additional \$100,000,000 in general obligation bonds in the second half of fiscal year 2022-2023. This bill needs to be vetoed so that the Legislature can consider this additional bond authorization.

For the foregoing reason, I am returning House Bill No. 1631 without my approval.

Respectfully,



DAVID Y. IGE
Governor of Hawai'i

A BILL FOR AN ACT

RELATING TO STATE BONDS.

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

1 SECTION 1. (a) The legislature finds that the Federal
2 Reserve has authorized the establishment and operation of the
3 Municipal Liquidity Facility under section 13(3) of the Federal
4 Reserve Act (12 U.S.C. §343(3)) to help facilitate access to
5 credit and liquidity in order for state, city, and county
6 governments to better manage periods of dislocation related to
7 the coronavirus disease 2019, or COVID-19, pandemic. By
8 enabling the Municipal Liquidity Facility, the Federal Reserve
9 has engaged its full range of tools to support the flow of
10 credit to households, businesses, and communities to counter the
11 economic impact of the COVID-19 pandemic and promote a swift
12 recovery once disruption related to the pandemic abates.

13 The legislature intends that the:

14 (1) Municipal Liquidity Facility be utilized at levels
15 that are prudent and that do not adversely affect the
16 State; and



1 (2) Amount authorized for the Municipal Liquidity Facility
2 contained herein reflects flexibility that is balanced
3 by the executive's prerogative to prudently execute
4 the State's economic recovery with the means
5 authorized by the legislature.

6 (b) Insomuch as the amounts authorized in this Act may
7 exceed the debt limit, the legislature further finds that
8 article VII, section 13, of the state constitution provides
9 that:

10 (1) Any bond issue by or on behalf of the State may exceed
11 the debt limit if an emergency condition is declared
12 to exist by the governor and concurred to by a two-
13 thirds vote of the members to which each house of the
14 legislature is entitled; and

15 (2) In determining the power of the State to issue general
16 obligation bonds or the funded debt of any political
17 subdivision, the following shall be excluded: Bonds
18 issued by or on behalf of the State or by any
19 political subdivision to meet appropriations for any
20 fiscal period in anticipation of the collection of
21 revenues for that period or to meet casual deficits or



1 failures of revenue, if required to be paid within one
2 year, and bonds issued by or on behalf of the State to
3 suppress insurrection, to repel invasion, to defend
4 the State in war or to meet emergencies caused by
5 disaster or act of God.

6 (c) Declaration of findings with respect to the general
7 obligation bonds authorized by this Act. Pursuant to article
8 VII, section 13, of the state constitution, which states:

9 "Effective July 1, 1980, the legislature shall include a
10 declaration of findings in every general law authorizing the
11 issuance of general obligation bonds that the total amount of
12 principal and interest, estimated for such bonds and for all
13 bonds authorized and unissued and calculated for all bonds
14 issued and outstanding, will not cause the debt limit to be
15 exceeded at the time of issuance", the legislature finds and
16 declares as follows:

17 (1) The debt limit of the State will be exceeded by the
18 general obligation bonds authorized by this Act;

19 (2) Limitation on general obligation debt. The debt limit
20 of the State is set forth in article VII, section 13,
21 of the state constitution, which states in part:



1 "General obligation bonds may be issued by the State;
2 provided that such bonds at the time of issuance would
3 not cause the total amount of principal and interest
4 payable in the current or any future fiscal year,
5 whichever is higher, on such bonds and on all
6 outstanding general obligation bonds to exceed: a sum
7 equal to twenty percent of the average of the general
8 fund revenues of the State in the three fiscal years
9 immediately preceding such issuance until June 30,
10 1982; and thereafter, a sum equal to eighteen and one-
11 half percent of the average of the general fund
12 revenues of the State in the three fiscal years
13 immediately preceding such issuance." Article VII,
14 section 13, of the state constitution also provides
15 that, in determining the power of the State to issue
16 general obligation bonds, certain bonds are
17 excludable, including "[r]eimbursable general
18 obligation bonds issued for a public undertaking,
19 improvement or system but only to the extent that
20 reimbursements to the general fund are in fact made
21 from the net revenue, or net user tax receipts, or



1 combination of both, as determined for the immediately
 2 preceding fiscal year" and bonds constituting
 3 instruments of indebtedness under which the State
 4 incurs a contingent liability as a guarantor, but only
 5 to the extent the principal amount of the bonds does
 6 not exceed seven per cent of the principal amount of
 7 outstanding general obligation bonds not otherwise
 8 excluded under article VII, section 13, of the state
 9 constitution.

10 (3) Actual and estimated debt limits. The limit on
 11 principal and interest of general obligation bonds
 12 issued by the State, actual for fiscal year 2019-2020
 13 and estimated for each fiscal year from 2020-2021 to
 14 2022-2023, is as follows:

15	Fiscal	Net General	
16	<u>Year</u>	<u>Fund Revenues</u>	<u>Debt Limit</u>
17	2016-2017	\$7,346,008,625	
18	2017-2018	7,656,001,540	
19	2018-2019	7,910,649,595	
20	2019-2020	8,193,938,000	\$1,412,947,352
21	2020-2021	8,193,159,000	1,465,236,330
22	2021-2022	8,576,776,000	1,498,361,040
23	2022-2023	(not applicable)	1,539,438,835



1 For fiscal years 2019-2020, 2020-2021, 2021-2022, and
2 2022-2023, respectively, the debt limit is derived by
3 multiplying the average of the net general fund
4 revenues for the three preceding fiscal years by
5 eighteen and one-half per cent. The net general fund
6 revenues for fiscal years 2016-2017, 2017-2018, and
7 2018-2019 are actual, as presented in the Statement of
8 the Debt Limit of the State of Hawaii as of July 1,
9 2019, dated November 18, 2019. The net general fund
10 revenues for fiscal years 2019-2020 to 2021-2022 are
11 estimates, based on general fund revenue estimates
12 made as of March 13, 2020, by the council on revenues,
13 the body assigned by article VII, section 7, of the
14 state constitution to make such estimates, and based
15 on estimates made by the department of budget and
16 finance of those receipts that cannot be included as
17 general fund revenues for the purpose of calculating
18 the debt limit, all of which estimates the legislature
19 finds to be reasonable.

- 20 (4) Principal and interest on outstanding bonds applicable
21 to the debt limit.



1 (A) The total amount of principal and interest on
 2 outstanding general obligation bonds, after the
 3 exclusions permitted by article VII, section 13,
 4 of the state constitution, for determining the
 5 power of the State to issue general obligation
 6 bonds within the debt limit as of May 1, 2020, is
 7 as follows for fiscal year 2020-2021 to fiscal
 8 year 2026-2027:

9	Fiscal	Principal
10	<u>Year</u>	<u>and Interest</u>
11	2020-2021	\$768,823,622
12	2021-2022	753,610,056
13	2022-2023	725,933,034
14	2023-2024	712,063,283
15	2024-2025	672,615,397
16	2025-2026	649,837,432
17	2026-2027	601,561,400

18
 19 The amount of principal and interest on
 20 outstanding bonds applicable to the debt limit
 21 generally continues to decline each year from
 22 fiscal year 2027-2028 to fiscal year 2038-2039
 23 when the final installment of \$37,533,250 shall
 24 be due and payable.



1 (B) The outstanding principal amount of bonds
2 constituting instruments of indebtedness under
3 which the State may incur a contingent liability
4 as a guarantor is \$233,500,000, all or part of
5 which is excludable in determining the power of
6 the State to issue general obligation bonds,
7 pursuant to article VII, section 13, of the state
8 constitution.

9 (5) Amount of authorized and unissued general obligation
10 bonds and guaranties and proposed bonds and
11 guaranties.

12 (A) As calculated from the state comptroller's bond
13 fund report as of March 31, 2020, adjusted for:

14 (i) Appropriations to be funded by general
15 obligation bonds or reimbursable general
16 obligation bonds as provided in Act 40,
17 Session Laws of Hawaii 2019 (the General
18 Improvement Act of 2019) and Act 189,
19 Session Laws of Hawaii 2019, to be expended
20 in fiscal year 2020-2021, adjusted for
21 additional appropriations provided in House



1 Bill No. 2725, H.D. 1, S.D. 1 (the
2 Supplemental Improvements Act of 2020,
3 Senate Bill No. 3139, S.D. 1, H.D. 1 and
4 Senate Bill No. 75, S.D. 2, H.D. 1;
5 (ii) Lapses as provided in House Bill No. 2725,
6 H.D. 1, S.D. 1 (the Supplemental
7 Improvements Act of 2020);
8 (iii) Appropriations to be funded by general
9 obligation bonds or reimbursable general
10 obligation bonds as provided in Act 38,
11 Session Laws of Hawaii 2019 (the Judiciary
12 Appropriations Act of 2019) to be expended
13 in fiscal year 2020-2021, adjusted for
14 additional appropriations provided in Senate
15 Bill No. 3080, S.D. 3, H.D. 1 (the Judiciary
16 Supplemental Appropriations Act of 2020);
17 and
18 (iv) Lapses as provided in Senate Bill No. 3080,
19 S.D. 3, H.D. 1 (the Judiciary Supplemental
20 Appropriations Act of 2020);



1 the total amount of authorized but unissued
 2 general obligation bonds is \$3,920,798,503. The
 3 total amount of general obligation bonds
 4 authorized in this Act is \$2,994,991,000. The
 5 total amount of general obligation bonds
 6 previously authorized and unissued, as adjusted,
 7 and the general obligation bonds authorized in
 8 this Act is \$6,915,789,503.

9 (B) The outstanding principal amount of bonds
 10 constituting instruments of indebtedness under
 11 which the State may incur a contingent liability
 12 as a guarantor is \$233,500,000, all or part of
 13 which is excludable in determining the power of
 14 the State to issue general obligation bonds,
 15 pursuant to article VII, section 13, of the state
 16 constitution.

17 (6) Proposed general obligation bond issuance. As
 18 reported therein for the fiscal years 2020-2021,
 19 2021-2022, and 2022-2023, the State proposes to issue
 20 \$3,475,000,000 in general obligation bonds (which
 21 includes \$2,100,000,000 in working capital



1 indebtedness or Municipal Liquidity Facility
2 indebtedness) during the first half of fiscal year
3 2020-2021, \$675,000,000 in general obligation bonds
4 during the second half of fiscal year 2020-2021,
5 \$675,000,000 in general obligation bonds during the
6 first half of fiscal year 2021-2022, \$675,000,000 in
7 general obligation bonds during the second half of
8 fiscal year 2021-2022, \$715,000,000 in general
9 obligation bonds during the first half of fiscal year
10 2022-2023, and \$715,000,000 in general obligation
11 bonds during the second half of fiscal year 2022-2023.
12 Except for the working capital indebtedness and
13 Municipal Liquidity Facility indebtedness, the State
14 anticipates issuing a combination of twenty-year
15 serial bonds with principal repayments beginning the
16 third and fifth years and ten-year serial bonds with
17 principal repayments beginning the first year, payable
18 in substantially equal annual installments of
19 principal and interest payment with interest payments
20 commencing six months from the date of issuance and
21 being paid semi-annually thereafter. It is assumed



1 that this practice will continue to be applied to the
2 bonds that are proposed to be issued. The working
3 capital indebtedness and Municipal Liquidity Facility
4 indebtedness is anticipated to be for a term of three
5 years, payable in substantially equal annual
6 installments of principal payments, with interest
7 repaid at the end of the three-year term.

8 (7) Sufficiency of proposed general obligation bond
9 issuance to meet the requirements of authorized and
10 unissued bonds, as adjusted, and bonds authorized by
11 this Act. From the schedule reported in paragraph
12 (6), the total amount of general obligation bonds that
13 the State proposes to issue during the fiscal years
14 2020-2021 to 2021-2022 is \$5,500,000,000. An
15 additional \$1,430,000,000 is proposed to be issued in
16 fiscal year 2022-2023. The total amount of
17 \$5,500,000,000 that is proposed to be issued through
18 fiscal year 2021-2022 is sufficient to meet the
19 requirements of the authorized and unissued bonds, as
20 adjusted, the total amount of which is \$6,915,789,503
21 reported in paragraph (5), except for \$1,415,789,503.



1 It is assumed that the appropriations to which an
2 additional \$1,415,789,503 in bond issuance needs to be
3 applied will have been encumbered as of June 30, 2022.
4 The \$1,430,000,000 that is proposed to be issued in
5 fiscal year 2022-2023 will be sufficient to meet the
6 requirements of the June 30, 2022, encumbrances in the
7 amount of \$1,415,789,503. The amount of assumed
8 encumbrances as of June 30, 2022, is reasonable and
9 conservative, based upon an inspection of June 30
10 encumbrances of the general obligation bond fund as
11 reported by the state comptroller. Thus, taking into
12 account the amount of authorized and unissued bonds,
13 as adjusted, and the bonds authorized by this Act
14 versus the amount of bonds proposed to be issued by
15 June 30, 2022, and the amount of June 30, 2022,
16 encumbrances versus the amount of bonds proposed to be
17 issued in fiscal year 2022-2023, the legislature finds
18 that, in the aggregate, the amount of bonds proposed
19 to be issued is sufficient to meet the requirements of
20 all authorized and unissued bonds and the bonds
21 authorized by this Act.



1 (8) Bonds excludable in determining the power of the State
2 to issue bonds. As noted in paragraph (2), certain
3 bonds are excludable in determining the power of the
4 State to issue general obligation bonds.

5 (A) General obligation reimbursable bonds can be
6 excluded under certain conditions. It is not
7 possible to make a conclusive determination as to
8 the amount of reimbursable bonds that are
9 excludable from the amount of each proposed bond
10 issued because:

11 (i) It is not known exactly when projects for
12 which reimbursable bonds have been
13 authorized in prior acts and in this Act
14 will be implemented and will require the
15 application of proceeds from a particular
16 bond issue; and

17 (ii) Not all reimbursable general obligation
18 bonds may qualify for exclusion.

19 However, the legislature notes that with respect
20 to the principal and interest on outstanding
21 general obligation bonds, according to the



1 department of budget and finance, the average
2 proportion of principal and interest that is
3 excludable each year from the calculation against
4 the debt limit is 0.74 per cent for approximately
5 ten years from fiscal year 2019-2020 to fiscal
6 year 2028-2029. For the purpose of this
7 declaration, the assumption is made that 0.50 per
8 cent of each bond issue will be excludable from
9 the debt limit, an assumption that the
10 legislature finds to be reasonable and
11 conservative.

12 (B) Bonds constituting instruments of indebtedness
13 under which the State incurs a contingent
14 liability as a guarantor can be excluded but only
15 to the extent the principal amount of those
16 guaranties does not exceed seven per cent of the
17 principal amount of outstanding general
18 obligation bonds not otherwise excluded under
19 subparagraph (A); provided that the State shall
20 establish and maintain a reserve in an amount in



1 reasonable proportion to the outstanding loans
 2 guaranteed by the State as provided by law.
 3 According to the department of budget and finance
 4 and the assumptions presented herein, the total
 5 principal amount of outstanding general
 6 obligation bonds and general obligation bonds
 7 proposed to be issued, which are not otherwise
 8 excluded under article VII, section 13, of the
 9 state constitution for the fiscal years
 10 2019-2020, 2020-2021, 2021-2022, and 2022-2023
 11 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>
17 2019-2020	6,710,528,064
18 2020-2021	10,850,278,064
19 2021-2022	12,193,528,064
20 2022-2023	13,616,378,064

21
 22 Based on the foregoing and based on the assumption
 23 that the full amount of a guaranty is immediately due
 24 and payable when the guaranty changes from a
 25 contingent liability to an actual liability, the



1 aggregate principal amount of the portion of the
2 outstanding guaranties and the guaranties proposed to
3 be incurred, which does not exceed seven per cent of
4 the average amount set forth in the last column of the
5 above table and for which reserve funds have been or
6 will have been established as heretofore provided, can
7 be excluded in determining the power of the State to
8 issue general obligation bonds. As it is not possible
9 to predict with a reasonable degree of certainty when
10 a guaranty will change from a contingent liability to
11 an actual liability, it is assumed in conformity with
12 fiscal conservatism and prudence, that all guaranties
13 not otherwise excluded pursuant to article VII,
14 section 13, of the state constitution will become due
15 and payable in the same fiscal year in which the
16 greatest amount of principal and interest on general
17 obligation bonds, after exclusions, occurs. Thus,
18 based on these assumptions and on the determination in
19 paragraph (9), all of the outstanding guaranties can
20 be excluded.



1 (9) Determination whether the debt limit will be exceeded
2 at the time of issuance. From the foregoing and on
3 the assumption that all of the bonds identified in
4 paragraph (6) will be issued at an interest rate not
5 to exceed 5.75 per cent in fiscal years 2021 through
6 2023, it can be determined from the following schedule
7 that the bonds that are proposed to be issued, which
8 include all authorized and unissued bonds previously
9 authorized, as adjusted, general obligation bonds, and
10 instruments of indebtedness under which the State
11 incurs a contingent liability as a guarantor
12 authorized in this Act, will cause the debt limit to
13 be exceeded at the time of the bond issuance:



	Time of Issuance and Amount to be Counted Against <u>Debt Limit</u>	Debt Limit at Time of <u>Issuance</u>	Greatest Amount and Year of Highest Principal and Interest <u>on Bonds and Guaranties</u>
6	1st half FY 2020-2021		
7	\$3,468,125,000	1,465,236,330	1,594,188,551 (2021-2022)
8	2nd half FY 2020-2021		
9	\$671,625,000	1,465,236,330	1,632,806,988 (2021-2022)
10	1st half FY 2021-2022		
11	\$671,625,000	1,498,361,040	1,652,116,207 (2021-2022)
12	2nd half FY 2021-2022		
13	\$671,625,000	1,498,361,040	1,682,370,181 (2022-2023)
14	1st half FY 2022-2023		
15	\$711,425,000	1,539,438,835	1,730,621,623 (2023-2024)
16	2nd half FY 2022-2023		
17	\$711,425,000	1,539,438,835	1,793,373,561 (2023-2024)

18
19 (10) Overall and concluding finding. From the facts,
20 estimates, and assumptions stated in this declaration
21 of findings, the conclusion is reached that the total
22 amount of principal and interest estimated for the
23 general obligation bonds authorized in this Act, and
24 for all bonds authorized and unissued, and calculated
25 for all bonds issued and outstanding, and all
26 guaranties, will cause the debt limit to be exceeded
27 at the time of issuance.

28 SECTION 2. The legislature finds the bases for the
29 declaration of findings set forth in this Act are reasonable.
30 The assumptions set forth in this Act with respect to the



1 principal amount of general obligation bonds that will be
2 issued, the amount of principal and interest on reimbursable
3 general obligation bonds that are assumed to be excludable, and
4 the assumed maturity structure shall not be deemed to be
5 binding, it being the understanding of the legislature that
6 these matters must remain subject to substantial flexibility.

7 SECTION 3. Authorization for issuance of general
8 obligation bonds. General obligation bonds may be issued as
9 provided by law in an amount that may be necessary to finance
10 projects authorized in House Bill No. 2725, H.D. 1, S.D. 1 (the
11 Supplemental Improvements Act of 2020), Senate Bill No. 3080,
12 S.D. 3, H.D. 1 (the Judiciary Supplemental Appropriations Act of
13 2020), Senate Bill No. 3139, S.D. 1, H.D. 1, and Senate Bill No.
14 75, S.D. 2, H.D. 1; passed by the legislature during the regular
15 session of 2020 and designated to be financed from the general
16 obligation bond fund and from the general obligation bond fund
17 with debt service cost to be paid from special funds; provided
18 that the sum total of general obligation bonds issued under the
19 authority established in this section shall not exceed
20 \$2,994,991,000.



1 Any law to the contrary notwithstanding, general obligation
2 bonds may be issued from time to time in accordance with section
3 39-16, Hawaii Revised Statutes, in a principal amount as may be
4 required to refund any general obligation bonds of the State of
5 Hawaii heretofore or hereafter issued pursuant to law.

6 SECTION 4. Working capital indebtedness. Instruments of
7 indebtedness may be issued as provided by law in an amount that
8 may be necessary to finance any permitted purpose under House
9 Bill No. 2200, H.D. 1, S.D. 1, passed by the legislature during
10 the regular session of 2020; provided that the sum total of
11 these instruments of indebtedness issued under the authority
12 established in this section, together with any instruments of
13 indebtedness issued under the authority established in section
14 5, shall not, in the aggregate, exceed \$2,100,000,000.

15 SECTION 5. Municipal liquidity facility. Instruments of
16 indebtedness may be issued as provided by law in an amount that
17 may be necessary to finance any permitted purpose under section
18 13(3) of the Federal Reserve Act, authorized in House Bill No.
19 2200, H.D. 1, S.D. 1, passed by the legislature during the
20 regular session of 2020; provided that the sum total of these
21 instruments of indebtedness issued under the authority



1 established in this section, together with any instruments of
2 indebtedness issued under the authority established in section
3 4, shall not, in the aggregate, exceed \$2,100,000,000.

4 SECTION 6. The provisions of this Act are declared to be
5 severable and if any portion thereof is held to be invalid for
6 any reason, the validity of the remainder of this Act shall not
7 be affected.

8 SECTION 7. In printing this Act, the revisor of statutes
9 shall substitute in sections 1, 3, 4, and 5 the corresponding
10 act numbers for bills identified therein.

11 SECTION 8. This Act shall take effect upon its approval.

APPROVED this day of , 2020

GOVERNOR OF THE STATE OF HAWAII

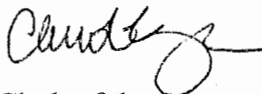


THE SENATE OF THE STATE OF HAWAI'I

Date: May 18, 2020
Honolulu, Hawai'i 96813

We hereby certify that the foregoing Bill this day passed Third Reading in the Senate of the Thirtieth Legislature of the State of Hawai'i, Regular Session of 2020.


President of the Senate

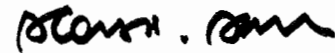

Clerk of the Senate

HB No. 1631, SD 1

THE HOUSE OF REPRESENTATIVES OF THE STATE OF HAWAII

Date: May 21, 2020
Honolulu, Hawaii

We hereby certify that the above-referenced Bill on this day passed Final Reading in the House of Representatives of the Thirtieth Legislature of the State of Hawaii, Regular Session of 2020.



Scott K. Saiki
Speaker
House of Representatives



Brian L. Takeshita
Chief Clerk
House of Representatives