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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. (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]eimburseable 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.



**Report Title:**

State Bonds; State Budget

**Description:**

Authorizes issuance of general obligation bonds. Authorizes issuance of instruments of indebtedness in an amount that may be necessary to finance any permitted purpose under the House Bill No. 2200, H.D. 1, S.D. 1 and section 13(3) of the Federal Reserve Act. Makes findings required by article VII, section 13, of the state constitution regarding the issuance of authorized bonds and the debt limit. (HB1631 SD1)

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

