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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 LAUREL A. JOHNSTON
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 2, 2018

Chairs Dela Cruz and Luke and Members of the Committees:

Thank you for the opportunity to present an overview of the Administration's
FY 19 Executive Supplemental Budget and Multi-Year General Fund Financial Plan.

My presentation will cover the following:

- Improvement in the State's fiscal position;
- The Administration's approach to the FY 19 Supplemental Budget and budget transparency issues;
- A brief synopsis of the FY 19 Supplemental operating and capital improvements program (CIP) budget;
- The multi-year general fund financial plan based on the Council on Revenues' (COR) September 7, 2017 revenue projections; and
- The general fund expenditure ceiling, the requirement to provide a tax refund or credit and deposit to the Emergency and Budget Reserve Fund (EBRF), and the State debt limit.

IMPROVEMENT IN THE STATE'S FISCAL POSITION

Our budget approach for the past three years has put the State in a much better fiscal position now than when the Administration took office in 2014. We have adopted formal budget reserve and debt management policies. With the Legislature's support, we have made significant progress in strengthening our reserves and addressing our unfunded liabilities.

We have built up our EBRF to \$310.7 million in preparation for future economic downturns. Moody's Analytics recently "stress tested" all 50 states and assessed that Hawai'i was one of 16 states that was prepared for a recession in consideration of our available reserve funds and budget policies.

By continuing to aggressively address pension and other post-employment benefits (OPEB) unfunded liabilities, we will reduce the amounts needed in the future. The State's OPEB prefunding contributions, totaling \$800 million through FY 17, are expected to save over \$1.6 billion over the next 20 years.

Additionally, Act 49, SLH 2017, the General Appropriations Act, appropriates funds to step up the OPEB annual required contribution from 90% in FY 18 to 100% in FY 19. We have also adopted a schedule of increased pension contributions pursuant to Act 17, SLH 2017, which will result in full funding within a 30-year horizon and approximately \$15 billion in expected savings over the funding period.

We have worked diligently over the past three years to improve our credit ratings for general obligation (G.O.) bonds. Because of our Administration's strong budget and financial policies and the actions taken by the Legislature, Hawai'i received multiple rating upgrades in 2016 when both Moody's Investors Service and Standard and Poors upgraded the State's bond ratings from Aa2 to Aa1 and from AA to AA+, respectively. This has allowed the State to issue G.O. bonds at lower interest rates, allowing general

funds that would have been used for debt service to address the State's other critical needs like education, housing, homelessness and sustainability.

ADMINISTRATION'S APPROACH TO THE FY 19 SUPPLEMENTAL BUDGET

The State's fiscal stability is critical to ensure the continuation of essential State services. In the development of the Executive Supplemental 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 FY 2017-19 and beyond.

The State's fiscal situation has fluctuated significantly over the past few years and general fund revenue growth trends have not always been consistent with economic activity. This fiscal year, general fund revenue collections have been consistently positive, an improvement from the fluctuations between negative and low positive growth in the beginning of FY 17. The cumulative November 2017 general fund tax revenue growth rate is 4.7%, down from 11.8% in July 2017, but it is premature to predict a trend in revenues for the remainder of the fiscal year.

The State's fiscal situation may appear optimistic in view of general fund revenue growth thus far and the carryover general fund balance of \$893.8 million from FY 17. However, as we have seen in the past several years, changes in revenue growth can be unpredictable over a 12-month period.

While the carryover balance will help to support our increasing operating costs, we are seriously concerned that the State's expenditures are still projected to exceed revenues for the next few years until FY 22. Our commitments to fund collective bargaining increases and the State's unfunded pension and OPEB liabilities have added significant amounts to the operating budget. In addition, the FY 19 Executive expenditure ceiling has already been exceeded.

The State must also be prepared to bear the costs of federal programs for services which the State deems critical should the federal government reduce or discontinue funding. The impact of significant federal fund reductions may be twofold, as the State will bear the economic impact of the reduced funding while providing additional funds for federal programs.

Inevitably, there are other pressing demands for State resources that must be considered. Providing good schools, housing, and health and social services will always be at the forefront of our priorities but we also need to support 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.

When these significant factors are looked at together, they reinforce the need to be prudent and conservative with our expenditures to ensure the State's fiscal stability through FY 2017-19 and beyond. We must responsibly 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.

As such, very limited general fund appropriations have been proposed for the Executive Supplemental Budget. We will continue to work with the Legislature to align our current resources to solve our most critical problems and better serve the people of Hawai'i.

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
- Specific budget line items which do not align with anticipated expenditures

Section 37-74(f), HRS, and Section 96 of Act 49, SLH 2017, 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 Supplemental 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.

The Administration will also submit a measure to initially authorize permanent civil service positions and funds for services currently performed under contracts with various State agencies, pursuant to an agreement between the United Public Workers and the State of Hawai'i.

THE FY 19 OPERATING BUDGET

Given the significant demands on State resources, very limited funds were available for supplemental budget requests. The Executive Biennium Budget already provides for the most critical and core program needs; thus, the Executive

Supplemental Budget is intended for other critical requests to supplement the funds which have already been appropriated and cannot wait until the upcoming biennium.

The Executive Supplemental Budget includes requests for FY 19 that propose changes and adjustments to Act 49, SLH 2017, the General Appropriations Act of 2017, which authorized funding for the two-year fiscal period that began on July 1, 2017 and ends on June 30, 2019. The Executive Supplemental Budget includes amendments for FY 19 that total \$85.5 million from all means of financing (MOF) for operating costs. This represents an increase of 0.6% over FY 19 appropriations in the FB 2017-19 Executive Budget. In terms of the general fund, the net additional requests total \$21.3 million, an increase of 0.3% over FY 19 appropriations in Act 49.

A department-by-department summary and highlights of what is contained in the Executive Supplemental operating budget can be found in “The FY 19 Executive Supplemental Budget – Budget in Brief” that is available on Budget and Finance’s website at www.budget.hawaii.gov/budget/.

THE FY 19 CAPITAL IMPROVEMENTS PROGRAM BUDGET

The State’s improved G.O. bond ratings and lower interest rates make it a favorable time to invest in the State’s infrastructure. We need to make the most of this opportunity to invest to: provide improved learning environments for our children; housing which is affordable for Hawai’i’s families to rent or buy; and improvements at our correctional facilities.

The investment in the State’s infrastructure is twofold as implementation of the State’s CIP also has broader economic impact. The Administration’s supplemental CIP request, totaling \$1,497.4 million from all MOF, would support an estimated 14,000 jobs, of which 5,520 would be in the construction industry.

The request is an increase of 215% over FY 19 in the FB 2017-19 Executive Budget, which was front loaded with the bulk of appropriations in FY 18. There are no G.O. bond fund requests for FY 18; thus, the net request for G.O. bond funds totals \$620 million in FY 19, resulting in an increase of 1,254%.

A department-by-department summary and highlights of what is contained in the Executive Supplemental CIP budget can be found in “The FY 19 Executive Supplemental Budget – Budget in Brief” that is available on Budget and Finance’s website at www.budget.hawaii.gov/budget/.

THE MULTI-YEAR GENERAL FUND FINANCIAL PLAN

The general fund financial plan shown on Attachment A is based on the COR’s September 7, 2017 general fund tax and non-tax revenue projections. The tax revenue projections provide for a 4.3% growth rate for FY 18 over FY 17, a 4.3% growth rate for FY 19, and a 4.0% growth rate annually for FY 20 through FY 24. Also included in the revenue section are other non-tax revenues not reflected in the COR’s non-tax revenue projection and estimated revenue impacts from various Administration measures that we will be submitting.

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

In the expenditure section, the financial plan reflects anticipated expenditures based on the FY 19 Executive Supplemental Budget, Judiciary’s Supplemental Budget, and continuation of FY 18 funding levels for the Office of Hawaiian Affairs and 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.

In addition to the requests for FY 19 funding, the Administration will be submitting two emergency appropriations for FY 18 totaling \$6.1 million. These emergency appropriations are needed to fund increased inmate health care and pharmacy costs, and out-of-state inmate housing due to delays in completing the Halawa Correctional Facility security renovations project.

Looking at the bottom of the financial plan you see that we reflect the State's Reserve policy to maintain an amount equal to 5% of prior year revenues as a general fund reserve. Thus, after the "Carry-Over Balance (Deficit), Ending" line, we have a "GF reserves (5% of prior yr revenues)" line that shows the general fund reserve amount calculated for each respective fiscal year. This is followed by the "END BAL LESS GF RESERVES" line that shows the available balances net of the required reserves for each respective fiscal year.

As you can see, the ending fund balances less general fund reserves declines from \$699.0 million in FY 16 to a low of -\$252.8 million in FY 22 then rises in FY 23. Looking two lines up at the "Revenue Over (Under) Expenditure" line, you can see that the cause of the decline in the ending fund balance less general fund reserves is annual expenditures exceeding annual revenues for FY 17 through FY 22 due in large part to increases for collective bargaining, OPEB and pension costs.

The financial plan submitted to the Legislature in December shows positive balances for the current fiscal biennium and the planning period and, thus far, preliminary general fund tax revenue collections for the first five months of FY 18 reflect a 4.7% growth rate over the same period in FY 17, reasonably close to the COR's

FY 18 growth projection of 4.3%. The COR will be meeting on January 8, 2018 to review and deliberate its projections.

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 18 and FY 19.

For the Executive Branch, total appropriations from the general fund (which include appropriations from the 2017 Legislature and the First Special Session) are within the appropriation ceiling for the Executive Branch for FY 18, but has already exceeded the appropriation ceiling for FY 19 by \$15.2 million (or 0.2%). Total proposed appropriation measures from the general fund to be submitted to the Legislature during the Regular Session of 2018 (which include FY 18 emergency appropriations, the Supplemental Budget for FY 19 and other specific appropriation measures for FY 19) are within the appropriation ceiling for FY 18 but will exceed the appropriation ceiling by \$36.7 million (or 0.5%) in FY 19. The reasons for this excess are the substantial costs of social assistance entitlements, support for public education, fringe benefits and other critical requirements.

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

TAX REFUND OR CREDIT AND DEPOSIT TO THE EBRF

Article VII, Section 6, of the Hawai'i State Constitution, requires that whenever the State general fund balance at the close of each of two successive fiscal years

exceeds 5% of general fund revenues for each of the two fiscal years, the Legislature must provide for a tax refund or tax credit to the taxpayers of the State or make a deposit into one or more emergency funds, as provided by law. Section 328L-3, 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%, 5% of the general fund balance shall be deposited into the EBRF.

For FYs 16 and 17, general fund balances were greater than 5% of general fund revenues. FY 16 general fund revenues exceeded the previous year's revenues by 5% or more and FY 17 general fund revenues did not exceed the previous year's revenues by 5%. Accordingly, the 2018 Legislature must provide for a tax refund or tax credit but need not make a deposit into the EBRF.

THE DEBT LIMIT

Section 13 of Article VII of the 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 FY 19 Executive Supplemental Budget and financial plan reflect our continued commitment to manage the State's near- and long-term obligations, meet federal and State mandates, and improve operations to efficiently deliver much needed public services. You will be hearing from the respective departments on details of their FY 19 supplemental budget requests in the coming weeks. The Ige Administration will

work with you on a continual basis during the 2018 Session deliberations on the Executive Supplemental Budget and the financial plan.

Thank you again for the opportunity to make this presentation.

Attachments

MULTI-YEAR FINANCIAL SUMMARY

GENERAL FUND

FISCAL YEARS 17 - 23

(in millions of dollars)

	Actual* FY 17	Estimated FY 18	Estimated FY 19	Estimated FY 20	Estimated FY 21	Estimated FY 22	Estimated FY 23
REVENUES:							
Executive Branch:							
Tax revenues	6,315.2	6,586.8	6,870.0	7,144.8	7,430.6	7,727.8	8,036.9
Nontax revenues	1,003.4	739.5	762.1	805.9	841.6	856.9	873.9
Judicial Branch revenues	33.0	36.5	37.2	37.8	38.3	38.9	39.5
Other revenues	0.0	(33.9)	(6.8)	26.4	28.0	27.0	25.9
TOTAL REVENUES	7,351.6	7,328.9	7,662.5	8,014.8	8,338.5	8,650.7	8,976.3
EXPENDITURES							
Executive Branch:							
Operating	7,036.6	7,248.4	7,442.9	7,789.8	8,028.6	8,214.0	8,402.8
CIP	14.3	10.5	11.2	11.2	11.2	11.2	11.2
Specific appropriation/CB	503.6	112.8	239.5	294.7	352.1	367.6	367.6
Other expenditures/adjustments	0.0	(107.8)	8.1	2.1	2.1	2.1	2.1
Sub-total - Exec Branch	7,554.5	7,263.9	7,701.6	8,097.8	8,394.0	8,594.8	8,783.6
Legislative Branch	41.1	41.1	41.1	41.1	41.1	41.1	41.1
Judicial Branch	162.3	165.7	171.0	171.8	172.0	172.0	172.0
OHA	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Counties	-	-	-	-	-	-	-
Lapses	(275.2)	(80.0)	(80.0)	(80.0)	(80.0)	(80.0)	(80.0)
TOTAL EXPENDITURES	7,485.6	7,393.6	7,836.7	8,233.7	8,530.1	8,730.9	8,919.7
REV. OVER (UNDER) EXPEND.	(134.0)	(64.7)	(174.2)	(218.8)	(191.6)	(80.3)	56.6
CARRY-OVER BALANCE (DEFICIT)							
Beginning	1,027.8	893.8	829.1	654.9	436.0	244.4	164.2
Ending	893.8	829.1	654.9	436.0	244.4	164.2	220.8
GF reserves (5% of prior yr revenues)	354.1	367.6	366.4	383.1	400.7	416.9	432.5
END BAL LESS GF RESERVES	539.7	461.5	288.4	52.9	(156.3)	(252.8)	(211.8)
<i>EBRF (add'l \$1M FY16, \$201.4M FY17)</i>	311.3	319.7	328.3	336.8	345.3	353.8	362.3
<i>EBRF fund balance as % of prior yr revenues</i>	4.40%	4.35%	4.48%	4.40%	4.31%	4.24%	4.19%

* 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	C. Executive Branch
Total State Personal Income (in \$ millions)	Recommended General Fund Appropriations
Calendar Year 2013	Fiscal Year 2018
Calendar Year 2014	Fiscal Year 2019
Calendar Year 2015	
Calendar Year 2016	Actual and Proposed General Fund Appropriations
Calendar Year 2017*	Fiscal Year 2017
	Fiscal Year 2018
* As estimated by the Council on Revenues Nov. 2017	Proposed addtl appropriations
State Growth	Total - FY 2018 apprns
Fiscal Year 2018	Fiscal Year 2019
Fiscal Year 2019	Proposed addtl appropriations
	Total - FY 2019 apprns
B. All Branches of Government	General Fund Appropriation Ceiling
General Fund Appropriations	
Fiscal Year 2017	Fiscal Year 2018
Fiscal Year 2018 (incl proposed)	Fiscal Year 2019
Fiscal Year 2019 (incl proposed)	
General Fund Expenditure Ceiling	
Fiscal Year 2018	
Fiscal Year 2019	

7,376,016,868
7,698,699,216

7,553,592,420
7,364,965,229
11,051,639
7,376,016,868

7,665,740,429
32,958,787
7,698,699,216

7,904,774,982
7,662,002,894

8,524,005,593
8,854,501,921

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