



GOV. MSG. NO. **926**

EXECUTIVE CHAMBERS
HONOLULU

LINDA LINGLE
GOVERNOR

June 12, 2007

The Honorable Colleen Hanabusa, President
and Members of the Senate
Twenty-Fourth State Legislature
State Capitol, Room 409
Honolulu, Hawaii 96813

Dear Madam President and Members of the Senate:

This is to inform you that on June 12, 2007, the following bill was signed into law:

SB149 SD1 HD1 CD1

A BILL FOR AN ACT RELATING TO STATE BONDS.
(ACT 168)

Sincerely,

A handwritten signature in black ink, appearing to read "James R. Aiona, Jr.", written in a cursive style.

JAMES R. AIONA, JR.
Acting Governor

A BILL FOR AN ACT

RELATING TO STATE BONDS.

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

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

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



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



1 of such bonds does not exceed seven per cent of the
2 principal amount of outstanding general obligation
3 bonds not otherwise excluded under article VII,
4 section 13.

5 (2) Actual and estimated debt limits. The limit on
6 principal and interest of general obligation bonds
7 issued by the State, actual for fiscal year 2006-2007
8 and estimated for each fiscal year from 2007-2008 to
9 2010-2011, is as follows:

	<u>Fiscal</u> <u>Year</u>	<u>Net General</u> <u>Fund Revenues</u>	<u>Debt Limit</u>
12	2003-2004	\$3,894,091,730	
13	2004-2005	4,471,460,582	
14	2005-2006	4,904,019,330	
15	2006-2007	5,166,308,841	\$818,290,251
16	2007-2008	5,475,408,566	896,743,640
17	2008-2009	5,699,724,598	958,653,765
18	2009-2010	5,952,684,594	1,007,722,257
19	2010-2011	(not applicable)	1,056,215,428

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21 For fiscal years 2006-2007, 2007-2008, 2008-2009,
22 2009-2010 and 2010-2011, respectively, the debt limit
23 is derived by multiplying the average of the net
24 general fund revenues for the three preceding fiscal
25 years by eighteen and one-half per cent. The net
26 general fund revenues for fiscal years 2003-2004,



1 2004-2005, and 2005-2006 are actual, as certified by
2 the director of finance in the Statement of the Debt
3 Limit of the State of Hawaii as of July 1, 2006, dated
4 November 20, 2006. The net general fund revenues for
5 fiscal years 2006-2007 to 2009-2010 are estimates,
6 based on general fund revenue estimates made as of
7 March 15, 2007, by the council on revenues, the body
8 assigned by article VII, section 7 of the State
9 Constitution, to make such estimates, and based on
10 estimates made by the department of budget and finance
11 of those receipts that cannot be included as general
12 fund revenues for the purpose of calculating the debt
13 limit, all of which estimates the legislature finds to
14 be reasonable.

15 (3) Principal and interest on outstanding bonds applicable
16 to the debt limit.

17 (A) According to the department of budget and
18 finance, the total amount of principal and
19 interest on outstanding general obligation bonds,
20 after the exclusions permitted by article VII,
21 section 13 of the State Constitution, for
22 determining the power of the State to issue



1 general obligation bonds within the debt limit as
2 of April 1, 2007, is as follows for fiscal year
3 2007-2008 to fiscal year 2013-2014:

Fiscal Year	Principal and Interest
2007-2008	\$545,706,611
2008-2009	550,528,449
2009-2010	520,501,030
2010-2011	509,135,353
2011-2012	454,845,585
2012-2013	455,702,671
2013-2014	410,486,038

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15 The department of budget and finance further
16 reports that the amount of principal and interest
17 on outstanding bonds applicable to the debt limit
18 generally continues to decline each year from
19 fiscal year 2014-2015 to fiscal year 2026-2027
20 when the final installment of \$30,896,250 shall
21 be due and payable.

22 (B) The department of budget and finance further
23 reports that the outstanding principal amount of
24 bonds constituting instruments of indebtedness
25 under which the State may incur a contingent
26 liability as a guarantor is \$191,000,000, all or
27 part of which is excludable in determining the



1 power of the State to issue general obligation
2 bonds, pursuant to article VII, section 13 of the
3 State Constitution.

4 (4) Amount of authorized and unissued general obligation
5 bonds and guaranties and proposed bonds and
6 guaranties.

7 (A) As calculated from the state comptroller's bond
8 fund report as of March 31, 2007, adjusted for:

9 (i) Appropriations to be funded by general
10 obligations bonds or reimbursable general
11 obligation bonds as provided in House Bill
12 No. 500, H.D. 1, S.D. 1, C.D. 1 (the General
13 Appropriations Act of 2007);

14 (ii) Lapses as provided in House Bill No. 500,
15 H.D. 1, S.D. 1, C.D. 1 (the General
16 Appropriations Act of 2007);

17 (iii) Appropriations to be funded by general
18 obligation bonds or reimbursable general
19 obligation bonds as provided in House Bill
20 No. 1212, H.D. 2, S.D. 2, C.D. 1 (the
21 Judiciary Appropriations Act of 2007);



- 1 (iv) Lapses as provided in House Bill No. 1212,
- 2 H.D. 2, S.D. 2, C.D. 1 (the Judiciary
- 3 Appropriations Act of 2007);
- 4 (v) Appropriations to be funded by general
- 5 obligation bonds or reimbursable general
- 6 obligation bonds as provided in House Bill
- 7 No. 667, H.D. 1, S.D. 2, C.D. 1; and
- 8 (vi) The issuance of \$350,000,000 General
- 9 Obligation Bonds of 2007, Series DJ,
- 10 the total amount of authorized but unissued
- 11 general obligation bonds or reimbursable general
- 12 obligation bonds is \$1,062,761,333. The total
- 13 amount of general obligation bonds authorized by
- 14 this Act is \$982,031,000. The total amount of
- 15 general obligation bonds previously authorized
- 16 and unissued and the general obligation bonds
- 17 authorized in this Act is \$2,044,792,333.
- 18 (B) As reported by the department of budget and
- 19 finance the outstanding principal amount of bonds
- 20 constituting instruments of indebtedness under
- 21 which the State may incur a contingent liability
- 22 as a guarantor is \$191,000,000, all or part of



1 which is excludable in determining the power of
2 the State to issue general obligation bonds,
3 pursuant to article VII, section 13 of the State
4 Constitution.

5 (5) Proposed general obligation bond issuance. As
6 reported therein for the fiscal years 2007-2008, 2008-
7 2009, 2009-2010 and 2010-2011, the State proposed to
8 issue \$275,000,000 in general obligation bonds during
9 the first half of fiscal year 2007-2008, \$275,000,000
10 in general obligation bonds during the second half of
11 fiscal year 2007-2008, \$275,000,000 in general
12 obligation bonds during the first half of fiscal year
13 2008-2009, \$275,000,000 in general obligation bonds
14 during the second half of fiscal year 2008-2009,
15 \$275,000,000 in general obligation bonds during the
16 first half of fiscal year 2009-2010, \$250,000,000 in
17 general obligation bonds during the second half of
18 fiscal year 2009-2010, \$275,000,000 in general
19 obligation bonds during the first half of fiscal year
20 2010-2011, \$145,000,000 in general obligation bonds
21 during the second half of fiscal year 2010-2011. It
22 has been the practice of the State to issue

1 twenty-year serial bonds with principal repayments
2 beginning the fifth year, the bonds payable in
3 substantially equal annual installments of principal
4 and interest payment with interest payments commencing
5 six months from the date of issuance and being paid
6 semi-annually thereafter. It is assumed that this
7 practice will continue to be applied to the bonds that
8 are proposed to be issued.

9 (6) Sufficiency of proposed general obligation bond
10 issuance to meet the requirements of authorized and
11 unissued bonds, as adjusted, and bonds authorized by
12 this Act. From the schedule reported in paragraph
13 (5), the total amount of general obligation bonds that
14 the State proposes to issue during the fiscal years
15 2007-2008 to 2009-2010 is \$1,625,000,000. An
16 additional \$420,000,000 is proposed to be issued in
17 fiscal year 2010-2011. The total amount of
18 \$1,625,000,000 which is proposed to be issued through
19 fiscal year 2009-2010 is sufficient to meet the
20 requirements of the authorized and unissued bonds, as
21 adjusted, the total amount of which is \$2,044,792,333,
22 as reported in paragraph (4), except for \$419,792,333.



1 It is assumed that the appropriations to which an
2 additional \$419,792,333 in bond issuance needs to be
3 applied will have been encumbered as of June 30, 2010.
4 The \$420,000,000 which is proposed to be issued in
5 fiscal year 2010-2011 will be sufficient to meet the
6 requirements of the June 30, 2010, encumbrances in the
7 amount of \$419,792,333. The amount of assumed
8 encumbrances as of June 30, 2010, 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, 2010, and the amount of June 30, 2010,
16 encumbrances versus the amount of bonds proposed to be
17 issued in fiscal year 2010-2011, the legislature finds
18 that in the aggregate, the amount of bonds proposed to
19 be issued is sufficient to meet the requirements of
20 all authorized and unissued bonds and the bonds
21 authorized by this Act.



1 (7) Bonds excludable in determining the power of the State
2 to issue bonds. As noted in paragraph (1), 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 which 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
22 department of budget and finance, the average



1 proportion of principal and interest which is
2 excludable each year from the calculation against
3 the debt limit is 1.99 per cent for the ten years
4 from fiscal year 2007-2008 to fiscal year 2016-
5 2017. For the purpose of this declaration, the
6 assumption is made that one per cent of each bond
7 issue shall be excludable from the debt limit, an
8 assumption the legislature finds to be reasonable
9 and conservative.

10 (B) Bonds constituting instruments of indebtedness
11 under which the State incurs a contingent
12 liability as a guarantor may be excluded but only
13 to the extent the principal amount of such
14 guaranties does not exceed seven per cent of the
15 principal amount of outstanding general
16 obligation bonds not otherwise excluded under
17 subparagraph (A) of this paragraph; provided that
18 the State shall establish and maintain a reserve
19 in an amount in reasonable proportion to the
20 outstanding loans guaranteed by the State as
21 provided by law. According to the department of
22 budget and finance and the assumptions presented



1 herein, the total principal amount of outstanding
 2 general obligation bonds and general obligation
 3 bonds proposed to be issued, which are not
 4 otherwise excluded under article VII, section 13
 5 of the State Constitution for the fiscal years
 6 2006-2007, 2007-2008, 2008-2009, 2009-2010, and
 7 2010-2011 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>
2006-2007	\$4,294,794,867
2007-2008	4,531,888,122
2008-2009	4,750,780,005
2009-2010	4,943,610,752
2010-2011	5,014,335,726

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 20 Based on the foregoing and based on the
 21 assumption that the full amount of a guaranty is
 22 immediately due and payable when such guaranty changes
 23 from a contingent liability to an actual liability,
 24 the aggregate principal amount of the portion of the
 25 outstanding guaranties and the guaranties proposed to
 26 be incurred, which does not exceed seven per cent of
 27 the average amount set forth in the last column of the
 28 above table and for which reserve funds have been or



1 shall have been established as heretofore provided,
2 may be excluded in determining the power of the State
3 to issue general obligation bonds. As it is not
4 possible to predict with a reasonable degree of
5 certainty when a guaranty will change from a
6 contingent liability to an actual liability, it is
7 assumed in conformity with fiscal conservatism and
8 prudence, that all guaranties not otherwise excluded
9 pursuant to article VII, section 13 of the state
10 constitution shall become due and payable in the same
11 fiscal year in which the greatest amount of principal
12 and interest on general obligation bonds, after
13 exclusions, occurs. Thus, based on such assumptions
14 and on the determination in paragraph (8), all of the
15 outstanding guaranties may be excluded.

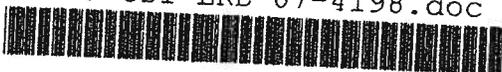
16 (8) Determination whether the debt limit will be exceeded
17 at the time of issuance. From the foregoing and on
18 the assumption that all of the bonds identified in
19 paragraph (5) will be issued at an interest rate of
20 not more than 6.0 per cent, it can be determined from
21 the following schedule that the bonds which are
22 proposed to be issued, which include all authorized



1 and unissued bonds previously authorized, as adjusted,
2 general obligation bonds, and instruments of
3 indebtedness under which the State incurs a contingent
4 liability as a guarantor authorized in this Act, will
5 not cause the debt limit to be exceeded at the time of
6 such issuance:

7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30
	Time of Issuance	and Amount to be	Counted Against	Debt Limit	Debt Limit	at Time of	Issuance	Greatest Amount	and Year of	Highest Principal	and Interest	on Bonds and Guaranties											
12	2 nd half of FY 2006-2007	\$346,500,000			818,290,251			550,528,449	(2008-2009)														
14	1 st half FY 2007-2008	\$272,250,000			896,743,640			566,863,449	(2008-2009)														
16	2 nd half FY 2007-2008	\$272,250,000			896,743,640			583,198,449	(2008-2009)														
18	1 st half FY 2008-2009	\$272,250,000			958,653,765			561,338,530	(2009-2010)														
20	2 nd half FY 2008-2009	\$272,250,000			958,653,765			577,673,530	(2009-2010)														
22	1 st half FY 2009-2010	\$272,250,000			1,007,722,257			590,810,353	(2010-2011)														
24	2 nd half FY 2009-2010	\$247,500,000			1,007,722,257			605,660,353	(2010-2011)														
26	1 st half FY 2010-2011	\$272,250,000			1,056,215,428			613,827,853	(2010-2011)														
28	2 nd half FY 2010-2011	\$143,550,000			1,056,215,428			618,857,771	(2012-2013)														

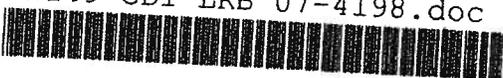
31 (9) Overall and concluding finding. From the facts,
32 estimates, and assumptions stated in this declaration
33 of findings, the conclusion is reached that the total
34 amount of principal and interest estimated for the



1 general obligation bonds authorized in this Act, and
2 for all bonds authorized and unissued, and calculated
3 for all bonds issued and outstanding, and all
4 guaranties, will not cause the debt limit to be
5 exceeded at the time of issuance.

6 SECTION 2. The legislature finds the bases for the
7 declaration of findings set forth in this Act reasonable. The
8 assumptions set forth in this Act with respect to the principal
9 amount of general obligation bonds which will be issued, the
10 amount of principal and interest on reimbursable general
11 obligation bonds which are assumed to be excludable, and the
12 assumed maturity structure shall not be deemed to be binding, it
13 being the understanding of the legislature that such matters
14 must remain subject to substantial flexibility.

15 SECTION 3. Authorization for issuance of general
16 obligation bonds. General obligation bonds may be issued as
17 provided by law in an amount that may be necessary to finance
18 the projects authorized in House Bill No. 500, H.D. 1, S.D. 1,
19 C.D. 1 (the General Appropriations Act of 2007), House Bill No.
20 1212, H.D. 2, S.D. 2, C.D. 1 (the Judiciary Appropriations Act
21 of 2007), and House Bill No. 667, H.D. 1, S.D. 2, C.D. 1 passed
22 by this regular session of 2007, designated to be financed from



1 the general obligation bond fund and from the general obligation
2 bond fund with debt service cost to be paid from special funds;
3 provided that the sum total of general obligation bonds so
4 issued shall not exceed \$982,031,000.

5 Any law to the contrary notwithstanding, general obligation
6 bonds may be issued from time to time in accordance with section
7 39-16, Hawaii Revised Statutes, in such principal amount as may
8 be required to refund any general obligation bonds of the State
9 of Hawaii heretofore or hereafter issued pursuant to law.

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

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

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



JAMES R. AIONA JR.

ACTING

GOVERNOR OF THE STATE OF HAWAII

Approved this day: JUN 12 2007

