
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

18 payable in the current or any future fiscal year,



1 whichever is higher, on such bonds and on all
2 outstanding general obligation bonds to exceed: a sum
3 equal to twenty percent of the average of the general
4 fund revenues of the State in the three fiscal years
5 immediately preceding such issuance until June 30,
6 1982; and thereafter, a sum equal to eighteen and one-
7 half percent of the average of the general fund
8 revenues of the State in the three fiscal years
9 immediately preceding such issuance." Article VII,
10 section 13 also provides that in determining the power
11 of the State to issue general obligation bonds,
12 certain bonds are excludable, including "reimbursable
13 general obligation bonds issued for a public
14 undertaking, improvement or system but only to the
15 extent that reimbursements to the general fund are in
16 fact made from the net revenue, or net user tax
17 receipts, or combination of both, as determined for
18 the immediately preceding fiscal year" and bonds
19 constituting instruments of indebtedness under which
20 the State incurs a contingent liability as a
21 guarantor, but only to the extent the principal amount
22 of such bonds does not exceed seven per cent of the



principal amount of outstanding general obligation bonds not otherwise excluded under article VII, section 13.

- (2) Actual and estimated debt limits. The limit on principal and interest of general obligation bonds issued by the State, actual for fiscal year 2007-2008 and estimated for each fiscal year from 2008-2009 to 2010-2011, is as follows:

<u>Fiscal Year</u>	<u>Net General Fund Revenues</u>	<u>Debt Limit</u>
2004-2005	\$4,471,460,582	
2005-2006	4,904,019,330	
2006-2007	5,122,620,268	
2007-2008	5,257,907,000	\$ 894,049,511
2008-2009	5,479,880,000	942,547,040
2009-2010	5,727,522,000	978,058,448
2010-2011	(not applicable)	1,015,360,722

For fiscal years 2007-2008, 2008-2009, 2009-2010, and 2010-2011, 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 per cent. The net general fund revenues for fiscal years 2004-2005, 2005-2006, and 2006-2007 are actual, as certified by the director of finance in the Statement of the Debt Limit of the



1 State of Hawaii as of July 1, 2007, dated November 29,
2 2007. The net general fund revenues for fiscal years
3 2007-2008 to 2009-2010 are estimates, based on general
4 fund revenue estimates made as of March 12, 2008, by
5 the council on revenues, the body assigned by article
6 VII, section 7 of the State Constitution to make such
7 estimates, and based on estimates made by the
8 department of budget and finance of those receipts
9 which cannot be included as general fund revenues for
10 the purpose of calculating the debt limit, all of
11 which estimates the legislature finds to be
12 reasonable.

13 (3) Principal and interest on outstanding bonds applicable
14 to the debt limit.

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



of April 1, 2008, is as follows for fiscal year
2008-2009 to fiscal year 2014-2015:

<u>Fiscal</u> <u>Year</u>	<u>Principal</u> <u>and Interest</u>
2008-2009	\$550,695,880
2009-2010	520,620,608
2010-2011	509,308,042
2011-2012	454,955,577
2012-2013	455,754,104
2013-2014	410,530,512
2014-2015	394,896,120

The department of budget and finance further
reports that the amount of principal and interest
on outstanding bonds applicable to the debt limit
generally continues to decline each year from
fiscal year 2015-2016 to fiscal year 2026-2027
when the final installment of \$30,896,250 shall
be due and payable.

(B) The department of budget and finance further
reports that the outstanding principal amount of
bonds constituting instruments of indebtedness
under which the State may incur a contingent
liability as a guarantor is \$191,000,000, all or
part of which is excludable in determining the
power of the State to issue general obligation



1 bonds, pursuant to article VII, section 13 of the
2 State Constitution.

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

6 (A) As calculated from the state comptroller's bond
7 fund report as of February 29, 2008, adjusted
8 for:

9 (i) Appropriations to be funded by general
10 obligation bonds or reimbursable general
11 obligation bonds as provided in Act 213,
12 Session Laws of Hawaii 2007 (the General
13 Appropriations Act of 2007), to be expended
14 in fiscal year 2008-2009, adjusted for
15 additional appropriations provided in House
16 Bill No. 2500, H.D. 1, S.D. 1, C.D. 1 (the
17 Supplemental Appropriations Act of 2008);

18 (ii) Lapses as provided in House Bill No. 2500,
19 H.D. 1, S.D. 1, C.D. 1 (the Supplemental
20 Appropriations Act of 2008); and

21 (iii). Appropriations to be funded by general
22 obligation bonds or reimbursable general



1 obligation bonds as provided in Act 169,
2 Session Laws of Hawaii 2007 (the Judiciary
3 Appropriations Act of 2007) to be expended
4 in fiscal year 2008-2009, adjusted for
5 additional appropriations provided in House
6 Bill No. 2700, H.D. 1, S.D. 2, C.D. 1 (the
7 Judiciary Supplemental Appropriations Act of
8 2008);

9 the total amount of authorized but unissued
10 general obligation bonds is \$1,730,773,507. The
11 total amount of general obligation bonds
12 authorized in this Act is \$805,079,000. The
13 total amount of general obligation bonds
14 previously authorized and unissued, as adjusted,
15 and the general obligation bonds authorized in
16 this Act is \$2,535,852,507.

17 (B) As reported by the department of budget and
18 finance the outstanding principal amount of bonds
19 constituting instruments of indebtedness under
20 which the State may incur a contingent liability
21 as a guarantor is \$191,000,000, all or part of
22 which is excludable in determining the power of



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

4 (5) Proposed general obligation bond issuance. As
5 reported therein for the fiscal years 2007-2008, 2008-
6 2009, 2009-2010, and 2010-2011, the State proposed to
7 issue \$400,000,000 in general obligation bonds during
8 the remainder of second half of fiscal year 2007-2008,
9 \$325,000,000 in general obligation bonds during the
10 first half of fiscal year 2008-2009, \$340,000,000 in
11 general obligation bonds during the second half of
12 fiscal year 2008-2009, \$370,000,000 in general
13 obligation bonds during the first half of fiscal year
14 2009-2010, \$370,000,000 in general obligation bonds
15 during the second half of fiscal year 2009-2010,
16 \$375,000,000 in general obligation bonds during the
17 first half of fiscal year 2010-2011, and \$360,000,000
18 in general obligation bonds during the second half of
19 fiscal year 2010-2011. It has been the practice of
20 the State to issue twenty-year serial bonds with
21 principal repayments beginning the fifth year, the
22 bonds payable in substantially equal annual



1 installments of principal and interest payment with
2 interest payments commencing six months from the date
3 of issuance and being paid semi-annually thereafter.

4 It is assumed that this practice will continue to be
5 applied to the bonds that are proposed to be issued.

6 (6) Sufficiency of proposed general obligation bond
7 issuance to meet the requirements of authorized and
8 unissued bonds, as adjusted, and bonds authorized by
9 this Act. From the schedule reported in paragraph
10 (5), the total amount of general obligation bonds that
11 the State proposes to issue during the fiscal years
12 2007-2008 to 2009-2010 is \$1,805,000,000. An
13 additional \$735,000,000 is proposed to be issued in
14 fiscal year 2010-2011. The total amount of
15 \$1,805,000,000 which is proposed to be issued through
16 fiscal year 2009-2010 is sufficient to meet the
17 requirements of the authorized and unissued bonds, as
18 adjusted, the total amount of which is \$2,535,852,507
19 reported in paragraph (4), except for \$730,852,507.
20 It is assumed that the appropriations to which an
21 additional \$730,852,507 in bond issuance needs to be
22 applied will have been encumbered as of June 30, 2010.



1 The \$735,000,000 which is proposed to be issued in
2 fiscal year 2010-2011 will be sufficient to meet the
3 requirements of the June 30, 2010, encumbrances in the
4 amount of \$730,852,507. The amount of assumed
5 encumbrances as of June 30, 2010, is reasonable and
6 conservative, based upon an inspection of June 30
7 encumbrances of the general obligation bond fund as
8 reported by the state comptroller. Thus, taking into
9 account the amount of authorized and unissued bonds,
10 as adjusted, and the bonds authorized by this Act
11 versus the amount of bonds proposed to be issued by
12 June 30, 2010, and the amount of June 30, 2010,
13 encumbrances versus the amount of bonds proposed to be
14 issued in fiscal year 2010-2011, the legislature finds
15 that in the aggregate, the amount of bonds proposed to
16 be issued is sufficient to meet the requirements of
17 all authorized and unissued bonds and the bonds
18 authorized by this Act.

- 19 (7) Bonds excludable in determining the power of the State
20 to issue bonds. As noted in paragraph (1), certain
21 bonds are excludable in determining the power of the
22 State to issue general obligation bonds.



1 (A) General obligation reimbursable bonds can be
2 excluded under certain conditions. It is not
3 possible to make a conclusive determination as to
4 the amount of reimbursable bonds which are
5 excludable from the amount of each proposed bond
6 issued because:

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

13 (ii) Not all reimbursable general obligation
14 bonds may qualify for exclusion.

15 However, the legislature notes that with respect
16 to the principal and interest on outstanding
17 general obligation bonds, according to the
18 department of budget and finance, the average
19 proportion of principal and interest which is
20 excludable each year from the calculation against
21 the debt limit is 1.75 per cent for the ten years
22 from fiscal year 2007-2008 to fiscal year 2016-



1 2017. For the purpose of this declaration, the
2 assumption is made that one per cent of each bond
3 issue shall be excludable from the debt limit, an
4 assumption which the legislature finds to be
5 reasonable and conservative.

6 (B) Bonds constituting instruments of indebtedness
7 under which the State incurs a contingent
8 liability as a guarantor may be excluded but only
9 to the extent the principal amount of such
10 guaranties does not exceed seven per cent of the
11 principal amount of outstanding general
12 obligation bonds not otherwise excluded under
13 subparagraph (A) of this paragraph (7); provided
14 that the State shall establish and maintain a
15 reserve in an amount in reasonable proportion to
16 the outstanding loans guaranteed by the State as
17 provided by law. According to the department of
18 budget and finance and the assumptions presented
19 herein, the total principal amount of outstanding
20 general obligation bonds and general obligation
21 bonds proposed to be issued, which are not
22 otherwise excluded under article VII, section 13



of the State Constitution for the fiscal years
2007-2008, 2008-2009, 2009-2010, and 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>
2007-2008	\$4,442,724,012
2008-2009	4,762,504,540
2009-2010	5,161,270,000
2010-2011	5,533,200,000

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 per cent of
the average amount set forth in the last column of the
above table and for which reserve funds have been or
shall have been established as heretofore provided,
may 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



1 certainty when a guaranty will change from a
2 contingent liability to an actual liability, it is
3 assumed in conformity with fiscal conservatism and
4 prudence, that all guaranties not otherwise excluded
5 pursuant to article VII, section 13 of the State
6 Constitution shall become due and payable in the same
7 fiscal year in which the greatest amount of principal
8 and interest on general obligation bonds, after
9 exclusions, occurs. Thus, based on such assumptions
10 and on the determination in paragraph (8), all of the
11 outstanding guaranties can be excluded.

12 (8) Determination whether the debt limit will be exceeded
13 at the time of issuance. From the foregoing and on
14 the assumption that all of the bonds identified in
15 paragraph (5) will be issued at an interest rate not
16 to exceed 6.0 per cent, it can be determined from the
17 following schedule that the bonds which are proposed
18 to be issued, which include all authorized and
19 unissued bonds previously authorized, as adjusted,
20 general obligation bonds, and instruments of
21 indebtedness under which the State incurs a contingent
22 liability as a guarantor authorized in this Act, will



not cause the debt limit to be exceeded at the time of
such 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>
2 nd half FY 2007-2008 \$396,000,000	894,049,511	589,292,850 (2008-2009)
1 st half FY 2008-2009 \$321,750,000	942,547,040	598,945,350 (2008-2009)
2 nd half FY 2008-2009 \$336,600,000	942,547,040	592,133,436 (2009-2010)
1 st half FY 2009-2010 \$366,300,000	978,058,448	605,910,459 (2010-2011)
2 nd half FY 2009-2010 \$366,300,000	978,058,448	627,888,459 (2010-2011)
1 st half FY 2010-2011 \$371,250,000	1,015,360,722	639,025,959 (2010-2011)
2 nd half FY 2010-2011 \$356,400,000	1,015,360,722	648,658,455 (2012-2013)

(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 authorized in this Act, and
for all bonds authorized and unissued, and calculated
for all bonds issued and outstanding, and all
guaranties, will not cause the debt limit to be
exceeded at the time of issuance.



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

10 SECTION 3. Authorization for issuance of general
11 obligation bonds. General obligation bonds may be issued as
12 provided by law in an amount that may be necessary to finance
13 projects authorized in House Bill No. (the General
14 Appropriations Act of 2009) and House Bill No. (the
15 Judiciary Appropriations Act of 2009), passed by this regular
16 session of 2009, and designated to be financed from the general
17 obligation bond fund and from the general obligation bond fund
18 with debt service cost to be paid from special funds; provided
19 that the sum total of general obligation bonds so issued shall
20 not exceed \$.

21 Any law to the contrary notwithstanding, general obligation
22 bonds may be issued from time to time in accordance with Section



1 39-16, Hawaii Revised Statutes, in such principal amount as may
2 be required to refund any general obligation bonds of the State
3 of Hawaii heretofore or hereafter issued pursuant to law.

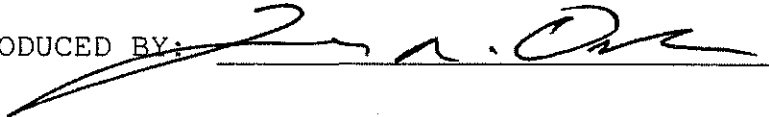
4 SECTION 4. The provisions of this Act are declared to be
5 severable and if any portion thereof is held to be invalid for
6 any reason, the validity of the remainder of this Act shall not
7 be affected.

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

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

12

INTRODUCED BY:



JAN 21 2009



Report Title:

General Obligation Bond Declaration

Description:

Authorizes issuance of general obligation bonds. Makes findings required by Article VII, Section 13 of the State Constitution to declare that issuance of authorized bonds will not cause debt limit to be exceeded.

