

TESTIMONY BY WESLEY K. MACHIDA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE SENATE COMMITTEE ON WAYS AND MEANS
ON
SENATE BILL NO. 253

February 11, 2015
9:05 A.M.

RELATING TO STATE DEBT

Senate Bill No. 253 requires the Director of Finance to submit a recommended State Debt Management Policy to the legislature before the 2016 regular session, and a Debt Affordability Study to the legislature before the regular session of each odd-numbered year. The bill also makes an appropriation for the preparation of the Policy and Study.

The Department supports the intent of the bill. The Department is currently evaluating the establishment and adoption of a debt management policy and debt affordability study to provide established guidelines and policies in the issuance and administration of our general obligation bonds. We believe that a formalized debt management policy and debt affordability study would be beneficial for planning and decision making purposes, and may be favorably viewed by the rating agencies, depending upon the specifics of the policies established.

There are differing levels of debt policies established by bond issuing entities, ranging from informal "past practice" policies to constitutionally established policies, such as the State's Constitutional requirement that annual general obligation bond debt service not exceed eighteen and one-half percent of the average of the general fund

revenues of the three fiscal years immediately preceding such issuance. While the Constitutional limitation is fair and appropriate, we believe that other more specific and detailed “policies” not be incorporated into statutes to allow for a moderate level of flexibility. Our recommendation for the establishment of a State Debt Management Policy and Debt Affordability Study is to first fund a Debt Affordability Study to assist in identifying the critical factors, considerations and limitations to be in determining the appropriate and affordable level of State debt and utilize that information to establish a State Debt Management Policy. As the bill recommends that the Policy (which is due before the convening of the regular session of 2016) “consist of guidelines and restrictions that affect the amount and type of bonds issued by the state government, the issuance process, and the management of the state debt portfolio” and “address bonded debt as well as financing agreements, certificates of participation, and other instruments that provide financing for state facilities”, the Department will need sufficient time to coordinate the development of the Policy with the other State departments/agencies (i.e., Department of Transportation, Department of Business Economic Development & Tourism, Hawaii Housing Finance and Development Corporation, University of Hawaii, Department of Hawaiian Home Lands). Given the July 1, 2015 effective date of the Act , coupled with the need to procure (pursuant to HRS Chapter 103D) a consultant to prepare a Debt Affordability Study and State Debt Management Policy, the submittal to the 2016 Hawaii State Legislature will likely not be achievable. The Department can attempt to meet this deadline, however, an alternative deadline and submittal format may be to submit the Debt Affordability Study and State Debt Management Policy in conjunction with the existing submittal of the Statement of

Debt Limit and Statement of Total Outstanding Indebtedness prior to the 2017 Hawaii
State Legislature

Thank you for the opportunity to provide testimony on this measure.