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HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
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 CRAIG K. HIRAI
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE SENATE COMMITTEE ON WAYS AND MEANS AND
THE HOUSE COMMITTEE ON FINANCE

January 7, 2020

Chairs Dela Cruz and Luke and Members of the Committees:

Thank you for the opportunity to present an overview of the Administration's FY 21 Executive Supplemental Budget and Multi-Year General Fund Financial Plan.

My presentation will cover the following:

- The Administration's approach to the FY 21 Supplemental Budget;
- Budget transparency issues;
- Constitutional and statutory requirements relating to the Executive Budget;
- A brief synopsis of the FY 21 Supplemental operating and capital improvements program (CIP) budget;
- The Multi-Year General Fund Financial Plan based on the Council on Revenues' (COR) September 10, 2019 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.

THE ADMINISTRATION'S APPROACH TO THE FY 21 SUPPLEMENTAL BUDGET

In developing the Executive Supplemental Budget, we considered the State's fiscal health and the potential impact of all proposed budget requests. To the extent possible, we must be aware of potential stressors to the State's economy which could impact the State's revenues and fiscal well-being. Since the beginning of our Administration, it has been our goal to improve the State's fiscal stability. The State's fiscal health has fluctuated significantly over the past several years and general fund tax revenue growth has not always been reflective of economic activity.

We have always approached the budget conservatively and our consistency has resulted in improvement of the State's fiscal position since we took office. We have built up our EBRF to \$378.2 million to prepare for future economic downturns.

We have made significant progress in strengthening our reserves and addressing our unfunded liabilities with the support of the Legislature. As a result of our strong budget and fiscal policies and actions taken by the Legislature, the State's credit ratings for general obligation (G.O.) bonds have improved to the highest AA rating from all three rating agencies. These are collectively the highest G.O. bond ratings ever achieved by the State. Higher credit ratings mean lower interest rates. Thus, the State has been able to issue G.O. bonds with lower debt service payments, freeing up funds which can be used for other critical needs such as education, housing, homelessness and sustainability.

General fund tax revenue collections for the current fiscal year have been strong and growth rates have been consistently positive. The cumulative November 2019 general fund tax revenue growth rate is 5.9 percent, down from 13.7 percent in July 2019, but it is premature to predict a trend in revenues for the remainder of the fiscal year.

The State's fiscal situation appears optimistic in view of general fund revenue growth thus far and the carryover general fund balance of \$752.1 million from FY 19. However, as we have seen in the past several years, changes in revenue growth can be unpredictable over a 12-month period.

While we remain concerned that the State's expenditures are projected to exceed revenues for the next few years until FY 23, the State has significant funding commitments to fulfill for collective bargaining increases and the State's unfunded pension and other post-employment benefits (OPEB) liabilities. We must ensure that adequate resources are available to meet these substantial demands.

Over the past few years, the State has gradually assumed more costs for federal programs for which federal grant funds were insufficient. We expect this trend to continue; thus, the State must be prepared to fund federal programs for services which the State deems critical. 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.

There are many pressing and competing demands for State resources. Education, housing, and health and social services will always be amongst our highest priorities, but we also need to support other programs that assist our communities and enhance our quality of life.

We have proposed limited general fund appropriations in the Executive Supplemental Budget and will continue to work 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 FB 2019-21 operating budget details for items which did not align with anticipated

expenditures and could be addressed immediately. 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 42 of Act 5, SLH 2019, 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.

CONSTITUTIONAL AND STATUTORY REQUIREMENTS

In preparing the Executive Supplemental Budget, the Executive Branch is bound by constitutional and statutory requirements, which include, but are not limited to, the following:

- Article VII, Section 9, of the State Constitution provides that “. . . in each regular session in an even-numbered year, at such time as may be provided by law, the governor may submit to the legislature a bill to amend any appropriation for operating expenditures of the current fiscal biennium, to be known as the supplemental appropriations bill, and bills to amend any appropriations for capital expenditures of the current fiscal biennium”
- Section 37-72, Supplemental Budget, HRS, states that the Governor may submit to the Legislature a supplemental budget to amend any appropriation for the current fiscal biennium. The supplemental budget shall reflect the changes being proposed in the State’s program and financial plan and shall be submitted, as applicable, in the manner provided in Section 37-71, The Budget, HRS.
- Section 37-71(b)(4), HRS, prescribes that the information provided in the budget be formatted such that “[p]rogram costs shall include all costs, including research and development, operating and capital, regardless of the means of financing”
- Section 37-71(c)(3), HRS, requires a summary listing of all capital improvement projects by program, at the lowest level of the program structure, which shows for each project, by investment cost elements, the amount of new appropriations and authorizations proposed. Under Section 37-62, Definitions, HRS, “cost elements” means the major subdivisions of a cost category. The category “capital investment” includes plan, land acquisition, design, construction, and equipment and furnishing.

Thus, we have submitted a comprehensive Executive Supplemental Budget that includes all program costs. All FY 20 and FY 21 operating appropriations and position ceilings from various departmental budget bills have been transferred to Act 5,

SLH 2019, the General Appropriations Act, as approved by the Governor on June 19, 2019, pursuant to Section 44 of Act 5, SLH 2019 (to be referred to as “Act 5, SLH 2019, including transfers”). These transfers were necessary to provide centralized funding for operations, which would improve fiscal control and reduce workload. Further, multiple budget acts could not be accommodated by the State’s budget systems and put a strain on our accounting resources.

These transfers were included in each department’s operating budget ceilings, as applicable. Lists of these transfers, by department, may be found under Finance Memorandum No. 19-11, FY 21 Supplemental Budget Policies and Guidelines (FB 2019-21): <https://budget.hawaii.gov/statewide-policies/financememorandums/fm-2019/>.

To meet the requirements of Section 37-71, HRS, we have also consolidated the operating and CIP budgets in the Executive Supplemental Budget. All new CIP requests have been included along with the CIP appropriations from Act 40, SLH 2019. Further, all CIP requests, including those for projects from Act 40, SLH 2019, designate funding by cost elements (i.e., plans, land acquisition, design, construction, and equipment).

THE FY 21 EXECUTIVE SUPPLEMENTAL 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.

The Executive Supplemental Budget includes:

1. Operating requests for FY 20 and FY 21 that propose changes and adjustments to Act 5, SLH 2019, including transfers, which authorized funding for the two-year fiscal period that began on July 1, 2019 and ends on June 30, 2021.
2. CIP requests for FY 21 that propose changes and adjustments to Act 40, SLH 2019, which will be incorporated into the Executive Supplemental Budget.

	<u>FY 20</u> <u>Appropriations</u> (\$million)	<u>FY 20</u> <u>Adjustments</u> (\$million)	<u>FY 20</u> <u>Requests</u> (\$million)
Operating Budget			
All Means of Financing (MOF)	15,632.1	62.5	15,694.6
General Funds	8,024.0	62.5	8,086.5
Capital Improvements			
All MOF	2,330.8	0.0	2,330.8
G.O. Bond Funds	1,018.8	0.0	1,018.8
G.O. Reimbursable Bond Funds	4.0	4.0
	<u>FY 21</u> <u>Appropriations</u> (\$million)	<u>FY 21</u> <u>Adjustments</u> (\$million)	<u>FY 21</u> <u>Requests</u> (\$million)
Operating Budget			
All MOF	15,768.2	429.0	16,197.2
General Funds	8,190.9	214.1	8,405.0
Capital Improvements			
All MOF	1,156.3	1,468.0	2,624.8
G.O. Bond Funds	439.3	533.2	972.5

Operating Budget

The Executive Supplemental Budget includes amendments for FY 20 and FY 21 that total \$62.5 million and \$429.0 million, respectively, from all MOF for operating costs. This represents increases of 0.4 percent and 2.7 percent over FY 20 and FY 21 appropriations, respectively, in the FB 2019-21 Executive Budget (Act 5, SLH 2019, including transfers).

A department-by-department summary and highlights of what is contained in the Executive Supplemental operating budget can be found in “The FY 21 Executive Supplemental Budget - Budget in Brief” that is available on the Department of Budget and Finance’s (B&F) website at www.budget.hawaii.gov/budget/.

Capital Improvements Program Budget

The Executive Supplemental Budget includes amendments for FY 21 that total \$1.468 billion from all MOF for CIP costs. This represents an increase of 127 percent over FY 21 appropriations from Act 40, SLH 2019 (which is proposed to be incorporated into the FB 2019-21 Executive Budget, Act 5, SLH 2019). There were no changes to FY 20 funding amounts compared to Act 40, SLH 2019.

A department-by-department summary and highlights of what is contained in the Executive Supplemental CIP budget can be found in “The FY 21 Executive Supplemental Budget - Budget in Brief” that is available on B&F’s website at www.budget.hawaii.gov/budget/.

THE MULTI-YEAR GENERAL FUND FINANCIAL PLAN

Attachment 1 is an updated Multi-Year General Fund Financial Plan that reflects the two major changes that occurred subsequent to submittal of the original financial plan to the Legislature with the FY 21 Executive Supplemental Budget on December 16, 2019. The original financial plan is shown on the top two-thirds of the page (above the first dotted line) and is based on the COR’s September 10, 2019 general fund tax and non-tax revenue projections. The tax revenue projections provide for a 4.1 percent growth rate for FY 20 over FY 19, a 3.0 percent growth rate for FY 21 and FY 22, and a 4.0 percent growth rate annually for FY 23 through FY 25. 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.

In its letter transmitting the projections, the COR recognized the underlying strength of the current economy, citing more construction down the pike and stronger visitor statistics for July, but raised concerns regarding the end of Hawai'i's expansionary cycle. The COR's projections were also impacted by the uncertainty caused by tighter enforcement of vacation rentals by the City and County of Honolulu and ongoing trade and currency wars.

In the expenditure section, the original financial plan reflects anticipated expenditures based on the FY 21 Executive Supplemental Budget, Judiciary's Supplemental Budget, and continuation of FY 21 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 and certain set-asides for completion of collective bargaining for the FB 2019-21 period. It should be noted that no set-asides are included in the financial plan for future collective bargaining requirements beyond the FB 2019-21 contract period.

In addition to the FY 20 requests included in the FY 21 Executive Supplemental Budget, the Administration will be submitting up to five emergency appropriations for FY 20. These emergency appropriations are needed to fund collective bargaining agreements and an arbitration award for Bargaining Units 2 (Blue Collar Supervisors); 8 (University of Hawai'i Allied, Professional & Technical employees); 9 (Nurses); and 13 (Professional & Scientific employees). A tentative agreement has been recently reached with Bargaining Unit 3 (White Collar Non-Supervisors) and ratification is currently underway.

For FY 19 of the original financial plan, total revenues were \$7,916.6 million and total expenditures were \$7,914.7 million, resulting in revenues over expenditures of \$1.8 million and an ending balance of \$752.1 million. For FY 20, estimated total revenues are \$8,202.2 million and estimated total expenditures are \$8,347.8 million, resulting in revenues under expenditures of -\$145.6 million and an estimated ending balance of \$606.6 million. For FY 21, estimated total revenues are \$8,434.6 million and estimated total expenditures are \$8,723.0 million, resulting in revenues under expenditures of -\$288.4 million and an estimated ending balance of \$318.2 million. Expenditures are estimated to continue to exceed revenues for FY 22 and FY 23, resulting in estimated balances of \$145.4 million and \$106.4 million, respectively. Expenditures are estimated to be under revenues for FY 24 and FY 25, resulting in estimated balances of \$193.7 million and \$498.6 million, respectively.

The two major changes to the original financial plan are shown in the lower third of the page (between the two dotted lines) and reflect:

1. Increased out-year Annual Required Contributions (ARC) to fund OPEB based on the draft 2019 Employer-Union Trust Fund's (EUTF) actuarial valuation; and
2. Additional collective bargaining funding (above the estimated set aside) for the recently negotiated Bargaining Unit 3 (White Collar Non-Supervisors) tentative agreement.

For FY 20, these additional costs increase estimated expenditures by \$19.4 million, resulting in revenues under expenditures of -\$165.0 million and an estimated ending balance of \$587.2 million. For FY 21, estimated expenditures increase by \$1.8 million, resulting in revenues under expenditures of -\$290.1 million and an estimated ending balance of \$297.0 million. For FY 22, estimated expenditures increase by \$11.6 million (\$6.7 million plus \$4.9 million), resulting in

revenues under expenditures of -\$184.4 million and an estimated ending balance of \$112.6 million. For FY 23, estimated expenditures increase by \$11.1 million (\$6.2 million plus \$4.9 million), resulting in revenues under expenditures of -\$50.1 million and an estimated ending balance of \$62.5 million. Expenditures are estimated to be under revenues for FY 24 and FY 25, resulting in estimated balances of \$138.1 million and \$431.1 million, respectively.

At the bottom of the page (below the second dotted line), we reflect the actual and estimated balances of the EBRF and the percentages of the EBRF fund balance of prior year revenues. As can be seen, the percentages are roughly around 5.0 percent, which is about one-half of the target EBRF reserve of 10.0 percent.

General fund tax collections for the first five months of FY 20 reflect a 5.9 percent growth compared to the same period last fiscal year. Growth levels have flattened as the fiscal year has progressed; however, changes in revenue growth can be unpredictable over a 12-month period. The COR will be meeting on January 9, 2020 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 20 and FY 21.

For the Executive Branch, the total proposed appropriations from the general fund (which include the Executive Supplemental Budget for FB 2019-21 and other specific appropriation measures to be submitted) exceed the appropriation ceiling by

\$27.7 million (or 0.3 percent) in FY 20 and \$39.7 million (or 0.5 percent) in FY 21. In FY 20, the excess is due to the costs of collective bargaining, differentials for classroom teachers and public safety operational requirements. In FY 21, the excess is due to the costs of collective bargaining, support of education, retirement system pension contributions and critical operational needs.

A summary statement on the General Fund Expenditure Ceiling and Executive Branch Appropriation Ceiling is included as Attachment 2.

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 percent 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 percent, 5 percent of the general fund balance shall be deposited into the EBRF.

For FY 18 and FY 19, general fund balances were greater than 5 percent of general fund revenues. For FY 18 and FY 19, total (tax and non-tax) general fund revenues did not exceed the respective previous year's revenues by 5 percent or more. Accordingly, the 2020 Legislature must provide for a tax refund or tax credit or make a deposit into one or more funds that serve as temporary supplemental sources of funding in times of emergency, economic downturn, or unforeseen reduction in revenues, or appropriate general funds for the prepayment of either or both of 1) debt service or 2) pension or OPEB liabilities.

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 Attachment 3.

In summary, the FY 21 Executive Supplemental Budget and Multi-Year General Fund 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 21 Supplemental Budget requests in the coming weeks. The Ige Administration will work with you on a continual basis during the 2020 Session deliberations on the Executive Supplemental Budget and the Multi-Year General Fund Financial Plan.

Thank you again for the opportunity to make this presentation.

Attachments

Updated FB 19-21 Supplemental Budget General Fund Financial Plan
Fiscal Years 18 - 25
(in millions of dollars)

	<u>Actual*</u> <u>FY 18</u>	<u>Actual*</u> <u>FY 19</u>	<u>Estimated</u> <u>FY 20</u>	<u>Estimated</u> <u>FY 21</u>	<u>Estimated</u> <u>FY 22</u>	<u>Estimated</u> <u>FY 23</u>	<u>Estimated</u> <u>FY 24</u>	<u>Estimated</u> <u>FY 25</u>
REVENUES:								
Executive Branch:	7.6%	5.1%	4.1%	3.0%	3.0%	4.0%	4.0%	4.0%
Tax revenues	6,795.5	7,141.3	7,434.6	7,657.6	7,887.4	8,202.9	8,531.0	8,872.2
Nontax revenues	830.5	742.4	733.1	753.7	767.3	779.3	794.6	809.1
Judicial Branch revenues	34.5	32.8	34.5	34.5	34.5	34.5	34.5	34.5
Other revenues	0.0	0.0	0.0	(11.1)	(0.7)	(2.1)	(1.1)	(1.0)
TOTAL REVENUES	7,660.4	7,916.6	8,202.2	8,434.6	8,688.4	9,014.5	9,358.9	9,714.7
EXPENDITURES								
Executive Branch:								
Operating	7,248.5	7,512.2	8,086.5	8,405.0	8,539.4	8,732.1	8,950.4	9,088.8
CIP	10.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Specific appropriation/CB	441.5	356.2	84.6	82.0	74.2	74.2	74.2	74.2
Other expenditures/adjustments	0.0	0.0	38.8	96.5	109.7	109.3	109.1	108.8
Sub-total - Exec Branch	7,700.5	7,868.4	8,209.9	8,583.6	8,723.3	8,915.6	9,133.8	9,271.9
Legislative Branch	42.0	43.1	42.8	43.3	43.3	43.3	43.3	43.3
Judicial Branch	165.7	170.3	172.0	173.0	171.5	171.5	171.5	171.5
OHA	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Counties	0.6	20.7	0.0	0.0	0.0	0.0	0.0	0.0
Lapses	(107.8)	(190.9)	(80.0)	(80.0)	(80.0)	(80.0)	(80.0)	(80.0)
TOTAL EXPENDITURES	7,803.9	7,914.7	8,347.8	8,723.0	8,861.2	9,053.5	9,271.7	9,409.8
REV. OVER (UNDER) EXPEND.	(143.5)	1.8	(145.6)	(288.4)	(172.8)	(39.0)	87.3	305.0
CARRY-OVER BALANCE (DEFICIT)								
Beginning	893.8	750.3	752.1	606.6	318.2	145.4	106.4	193.7
Ending	750.3	752.1	606.6	318.2	145.4	106.4	193.7	498.6

Updated EUTF ARC pymts, 6.30.19			0.0	0.0	6.7	6.2	6.8	7.1
Less: BU 3 set aside			(10.3)	(26.1)	(31.3)	(31.3)	(31.3)	(31.3)
BU 3 settlement			29.7	27.9	36.1	36.1	36.1	36.1
Net revised BU 3 CB			19.4	1.8	4.9	4.9	4.9	4.9
REV. OVER (UNDER) EXPEND.	(143.5)	1.8	(165.0)	(290.1)	(184.4)	(50.1)	75.6	293.0
CARRY-OVER BALANCE (DEFICIT)								
Beginning	893.8	750.3	752.1	587.2	297.0	112.6	62.5	138.1
Ending	750.3	752.1	587.2	297.0	112.6	62.5	138.1	431.1

GF reserves (5% of prior yr revenues)	367.6	383.0	395.8	410.1	421.7	434.4	450.7	467.9
END BAL LESS OF RESERVES	382.7	369.1	191.3	(113.1)	(309.1)	(371.9)	(312.6)	(36.8)
<i>EBRF (addl \$5M FY20)</i>	375.7	378.2	396.0	404.0	411.9	420.4	428.9	437.5
<i>EBRF fund balance as % of prior yr revenues</i>	5.11%	4.94%	5.00%	4.92%	4.88%	4.84%	4.76%	4.67%

* 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

Total State Personal Income (in \$ millions)

Calendar Year 2015	70,384
Calendar Year 2016	72,879
Calendar Year 2017	75,690
Calendar Year 2018	78,721
Calendar Year 2019*	81,398

* As estimated by the Council on Revenues Nov. 2019

State Growth

Fiscal Year 2020	3.80%
Fiscal Year 2021	3.75%

B. All Branches of Government

General Fund Appropriations

Fiscal Year 2019	8,105,646,646
Fiscal Year 2020 (incl proposed)	8,413,425,095
Fiscal Year 2021 (incl proposed)	8,762,325,360

General Fund Expenditure Ceiling

Fiscal Year 2020	9,348,560,894
Fiscal Year 2021	9,699,527,323

C. Executive Branch

Recommended General Fund Appropriations

Fiscal Year 2020	8,195,342,887
Fiscal Year 2021	8,542,714,905

Actual and Proposed General Fund Appropriations

Fiscal Year 2019	7,868,499,828
Fiscal Year 2020	8,103,266,560
Proposed add'l appropriations	<u>92,076,327</u>
Total - FY 2020 apprns	8,195,342,887

Fiscal Year 2021	8,265,113,518
Proposed add'l appropriations	<u>277,601,387</u>
Total - FY 2021 apprns	8,542,714,905

General Fund Appropriation Ceiling

Fiscal Year 2020	8,167,657,878
Fiscal Year 2021	8,503,014,866

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 2020-2021 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 2017-2018 and estimated for each fiscal year from fiscal year 2020-2021 to 2022-2023, is as follows:

<u>Fiscal Year</u>	<u>Net General Fund Revenues</u>	<u>Debt Limit</u>
2016-2017	7,346,008,625	
2017-2018	7,656,001,540	
2018-2019	7,910,649,595	
2019-2020	8,196,262,000	1,412,947,352
2020-2021	8,439,844,000	1,465,379,643
2021-2022	8,683,236,000	1,513,716,595
2022-2023	(not applicable)	1,561,359,423

For fiscal years, 2019-2020, 2020-2021, 2021-2022 and 2022-2023 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 2016-2017, 2017-2018 and 2018-2019 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, 2019, dated November 18, 2019. The net general fund revenues for fiscal years 2019-2020 to 2021-2022 are estimates, based on general fund revenue estimates made as of August 29, 2019, 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 2019-2020 to 2038-2039, 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
2020	525,235,000	310,935,695	836,170,695	3,906,771	2,005,180	5,911,951	521,328,229	308,930,515	830,258,744
2021	482,710,000	292,025,904	774,735,904	4,060,903	1,851,380	5,912,282	478,649,097	290,174,524	768,823,622
2022	488,400,000	271,121,363	759,521,363	4,222,554	1,688,753	5,911,307	484,177,446	269,432,610	753,610,056
2023	482,345,636	249,502,046	731,847,681	4,395,654	1,518,993	5,914,648	477,949,981	247,983,053	725,933,034
2024	490,644,123	227,331,106	717,975,230	4,570,218	1,341,728	5,911,946	486,073,905	225,989,378	712,063,283
2025	473,495,473	205,033,049	678,528,522	4,756,657	1,156,468	5,913,124	468,738,816	203,876,582	672,615,397
2026	472,625,747	183,124,501	655,750,248	4,949,940	962,877	5,912,816	467,675,807	182,161,625	649,837,432
2027	443,721,178	161,607,121	605,328,299	3,010,535	756,364	3,766,900	440,710,643	160,850,757	601,561,400
2028	436,569,107	141,107,367	577,676,474	2,823,484	647,663	3,471,146	433,745,623	140,459,705	574,205,328
2029	423,504,815	121,175,777	544,680,593	1,985,000	545,069	2,530,069	421,519,815	120,630,709	542,150,524
2030	395,632,126	102,124,556	497,756,682	2,050,000	484,544	2,534,544	393,582,126	101,640,013	495,222,139
2031	367,118,919	83,990,285	451,109,203	2,110,000	420,825	2,530,825	365,008,919	83,569,460	448,578,378
2032	383,137,152	67,929,589	451,066,742	2,180,000	352,431	2,532,431	380,957,152	67,577,158	448,534,310
2033	326,658,856	53,367,469	380,026,325	2,250,000	280,444	2,530,444	324,408,856	53,087,025	377,495,881
2034	298,579,932	40,530,821	339,110,753	2,325,000	206,100	2,531,100	296,254,932	40,324,721	336,579,653
2035	251,510,000	29,133,089	280,643,089	2,405,000	127,734	2,532,734	249,105,000	29,005,355	278,110,355
2036	207,435,000	20,132,702	227,567,702	2,490,000	43,575	2,533,575	204,945,000	20,089,127	225,034,127
2037	157,935,000	11,878,570	169,813,570	0	0	0	157,935,000	11,878,570	169,813,570
2038	86,710,000	5,778,750	92,488,750	0	0	0	86,710,000	5,778,750	92,488,750
2039	35,865,000	1,668,250	37,533,250	0	0	0	35,865,000	1,668,250	37,533,250

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, 2019, adjusted for (a) appropriations made in Acts 40 and 189, Session Laws of Hawaii 2019, to be expended in fiscal year 2020-2021 (b) lapses proposed in THE EXECUTIVE BUDGET SUPPLEMENTAL [Budget Period: 2019-2021] (referred to as the "Budget") the total amount of authorized but unissued general obligation bonds amounts to \$4,022,920,870. The amount of general obligation bonds proposed in the Budget is \$533,175,000 (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 \$4,556,095,870.

(5) Proposed general obligation bond issuance. As reported in the Budget, as it applies to the fiscal period 2019-2020 to 2022-2023, the State proposed to issue \$600,000,000 in general obligation bonds during the remainder of fiscal year 2019-2020, \$600,000,000 in general obligation bonds during the first half of fiscal year 2020-2021, and \$650,000,000 in general obligation bonds during the second half of fiscal year 2020-2021, \$650,000,000 in general obligation bonds during the first half of fiscal year 2021-2022, and \$675,000,000 in general obligation bonds during the second half of fiscal year 2021-2022, \$675,000,000 in general obligation bonds during the first half of fiscal year 2022-2023 and \$710,000,000 in general obligation bonds during the second half of fiscal year 2022-2023. The State anticipates issuing a combination of twenty-year serial bonds with principal repayments beginning the third year and ten-year serial bonds with principal repayments beginning the first 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 2020-2021 2021-2022, and 2022-2023, is \$4,560,000,000. The total amount of \$4,560,000,000 which is proposed to be issued through fiscal year 2022-2023 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 \$4,556,095,870 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, 2023, 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 0.76 percent for approximately ten years from fiscal year 2019-2020 to fiscal year 2028-2029. 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 2019-2020, 2020-2021, 2021-2022 and 2022-2023 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>
2019-2020	7,480,243,064
2020-2021	8,720,868,064
2021-2022	10,035,933,064
2022-2023	11,410,548,064

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 2019-2020 \$595,500,000	1,412,947,352	827,262,154 (2020-2021)
1st half FY 2020-2021 \$595,500,000	1,465,379,643	864,046,782 (2021-2022)
2nd half FY 2020-2021 \$645,125,000	1,465,379,643	920,951,469 (2021-2022)
1st half FY 2021-2022 \$645,125,000	1,513,716,595	971,806,136 (2023-2024)
2nd half FY 2021-2022 \$669,940,000	1,513,716,595	1,030,899,911 (2023-2024)
1st half FY 2022-2023 \$669,940,000	1,561,359,423	1,089,400,073 (2023-2024)
2nd half FY 2022-2023 \$704,675,000	1,561,359,423	1,151,558,886 (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