June 26, 2015

The Honorable Ronald D. Kouchi,  
President  
and Members of the Senate  
Twenty-Eighth State Legislature  
State Capitol, Room 409  
Honolulu, Hawai‘i 96813

The Honorable Joseph M. Souki,  
Speaker and Members of the  
House of Representatives  
Twenty-Eighth State Legislature  
State Capitol, Room 431  
Honolulu, Hawai‘i 96813

Dear President Kouchi, Speaker Souki, and Members of the Legislature:

This is to inform you that on June 26, 2015, the following bill was signed into law:

SB253 SD1 HD1 CD1  
RELATING TO STATE DEBT  
ACT 149 (15)

Sincerely,

DAVID Y. IGE  
Governor, State of Hawai‘i
A BILL FOR AN ACT

RELATING TO STATE DEBT.

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

SECTION 1. The purpose of this Act is to address state
debt.

More specifically, this Act requires the director of
finance to submit to the legislature the following:

(1) A state debt management policy before the convening of
the regular session of 2017, as recommended by the
Government Finance Officers Association; and

(2) A debt affordability study before the convening of the
regular session of each odd-numbered year.

The legislature intends that this Act should promote both
transparency in budget-making and more informed decisions on
capital improvement project and debt issuance authorizations.

SECTION 2. The Hawaii Revised Statutes is amended by
adding a new chapter to be appropriately designated and to read
as follows:
PART I. STATE DEBT MANAGEMENT POLICY

§ -1 State debt management policy; establishment. (a) The director of finance, with the approval of the governor, shall submit to the legislature a recommended state debt management policy, in accordance with this chapter, at least twenty days prior to the convening of the regular session of 2017.

(b) The recommended state debt management policy shall 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. The purpose of the policy shall be to improve the quality of decisions, provide justification for the structure of debt issuance, identify policy goals, and demonstrate a commitment to long-term financial planning, including a multi-year capital plan and debt service payment schedule.

(c) The recommended state debt management policy shall address bonded debt as well as financing agreements, certificates of participation, and other instruments that
provide financing for state facilities in return for periodic
lease or other payments.

(d) The director of finance may submit recommended
amendments of the policy to the legislature prior to the
convening of any regular session.

§ -2 Recommended debt management policy; parameters.
The recommended state debt management policy shall be consistent
with, but may be more restrictive than, state constitutional
provisions and statutes. The recommended state debt management
policy shall address the following issues, as well as any others
deemed necessary by the director of finance:

(1) Purposes for which debt may be issued;
(2) Types of debt that may be issued;
(3) Limitations on indebtedness;
(4) Debt maturity schedule or other structural features;
(5) Method of sale;
(6) Method of procuring consultants and professionals;
(7) Refunding policies; and
(8) Disclosure practices.

§ -3 Debt management policy; duties of the legislature.
Upon receipt from the director of finance, the legislature shall
consider the recommended state debt management policy. The legislature may establish the policy, with or without modification, by act.

PART II. DEBT AFFORDABILITY STUDY

§ -11 Definitions. For the purpose of this part:

"Ensuing twenty-five fiscal year period" means the twenty-five fiscal years following the submittal of a multi-year program and financial plan to the legislature.

"Fiscal years covered by the applicable multi-year program and financial plan" means the six fiscal years following the submittal of the multi-year program and financial plan to the legislature.

§ -12 Debt affordability study. The director of finance shall submit to the legislature a debt affordability study prior to the convening of the regular session of each odd-numbered year. The director shall submit the study with the multi-year program and financial plan.

§ -13 Debt affordability study; purpose, information.

(a) The purpose of the debt affordability study shall be to provide the legislature with information on the affordability of the future debt planned for the State.
(b) The debt affordability study shall include the following information:

(1) The projected annual appropriation, by source of funding, necessary to pay the annual debt service for the ensuing twenty-five fiscal year period on the following bonds, under the assumption that all are issued:

(A) All authorized, but unissued bonds that have not lapsed as of the September 30 immediately preceding submittal of the study; and

(B) All bonds necessary to fund the capital improvement projects proposed in the fiscal years covered by the applicable multi-year program and financial plan;

(2) A debt service payment schedule showing the annual appropriation, by source of funding, necessary to pay, during the ensuing twenty-five fiscal year period, the annual debt service on:

(A) All bonds identified under paragraph (1); and

(B) All bonds previously issued, but remaining outstanding;
(3) The projected ratio of the following for each source of funding pledged to pay debt service on bonds during each fiscal year of the ensuing twenty-five fiscal year period:

(A) Annual debt service payments to annual revenues;

and

(B) Annual debt service payments to annual appropriations;

(4) An examination of whether projected annual revenues from the source of funding are adequate to pay for the annual debt service on the bonds;

(5) An examination of whether any increase in annual debt service payments on the bonds will cause a commensurate decrease of funds available for operating programs with the same source of funding as the debt service payments; and

(6) An assessment of whether the annual debt service obligations of the State for the fiscal years covered by the applicable multi-year program and financial plan are affordable to the State; and
(7) An identification of, and discussion on, any non-
compliance or possible non-compliance of the State's
actual or planned debt issuance with the state debt
management policy.

The director of finance may include any other information
in the study deemed appropriate or necessary by the director."

SECTION 3. There is appropriated out of the general
revenues of the State of Hawaii the sum of $100,000 or so much
thereof as may be necessary for fiscal year 2015-2016 and the
same sum or so much thereof as may be necessary for fiscal year
2016-2017 for the preparation of the state debt management
policy and the debt affordability study.

The sums appropriated shall be expended by the department
of budget and finance for the purposes of this Act.

SECTION 4. This Act shall take effect on July 1, 2015.

APPROVED this 26 day of JUN , 2015

GOVERNOR OF THE STATE OF HAWAII