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:

HB73 SD1 CD1 RELATING TO STATE BONDS
ACT 162 (15)

Sincerely,

[Signature]

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

RELATING TO STATE BONDS.

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

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

(1) Limitation on general obligation debt. The debt limit
of the State is set forth in Article VII, Section 13
of the State Constitution, which 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 twenty per cent of the average of the general fund revenues of the State in the three fiscal years immediately preceding such issuance until June 30, 1982; and thereafter, a sum equal to eighteen and one-half per cent of the average of the general fund revenues of the State in the three fiscal years immediately preceding such issuance." Article VII, Section 13 of the State Constitution 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" and bonds constituting instruments of indebtedness under which the State incurs a contingent
liability as a guarantor, but only to the extent the principal amount of those bonds does not exceed seven per cent of the principal amount of outstanding general obligation bonds not otherwise excluded under said Article VII, Section 13 of the State Constitution.

(2) Actual and estimated debt limits. The limit on principal and interest of general obligation bonds issued by the State, actual for fiscal year 2014-2015 and estimated for each fiscal year from 2015-2016 to 2018-2019, is as follows:

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Net General Fund Revenues</th>
<th>Debt Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011-2012</td>
<td>$5,648,800,650</td>
<td></td>
</tr>
<tr>
<td>2012-2013</td>
<td>6,226,008,766</td>
<td></td>
</tr>
<tr>
<td>2013-2014</td>
<td>6,088,589,303</td>
<td></td>
</tr>
<tr>
<td>2014-2015</td>
<td>6,387,763,000</td>
<td>$ 1,107,742,921</td>
</tr>
<tr>
<td>2015-2016</td>
<td>6,607,094,000</td>
<td>1,153,312,266</td>
</tr>
<tr>
<td>2016-2017</td>
<td>6,943,318,000</td>
<td>1,176,812,522</td>
</tr>
<tr>
<td>2017-2018</td>
<td>7,301,784,000</td>
<td>1,229,520,792</td>
</tr>
<tr>
<td>2018-2019</td>
<td>(not applicable)</td>
<td>1,285,885,420</td>
</tr>
</tbody>
</table>

For fiscal years 2014-2015, 2015-2016, 2016-2017, 2017-2018, and 2018-2019, respectively, the debt limit is derived by multiplying the average of the net
1 general fund revenues for the three preceding fiscal years by eighteen and one-half per cent. The net
2 general fund revenues for fiscal years 2011-2012, 2012-2013, and 2013-2014 are actual, as certified by
3 the director of finance in the Statement of the Debt Limit of the State of Hawaii as of July 1, 2014, dated
4 September 29, 2014. The net general fund revenues for fiscal years 2014-2015 to 2017-2018 are estimates,
5 based on general fund revenue estimates made as of March 12, 2015, by the council on revenues, the body
6 assigned by Article VII, Section 7 of the State Constitution to make such estimates, and based on
7 estimates made by the department of budget and finance of those receipts that cannot be included as general
8 fund revenues for the purpose of calculating the debt limit, all of which estimates the legislature finds to
9 be reasonable.
10 (3) Principal and interest on outstanding bonds applicable to the debt limit.
According to the department of budget and finance, the total amount of principal and interest on outstanding general obligation bonds, after the exclusions permitted by Article VII, Section 13 of the State Constitution, for determining the power of the State to issue general obligation bonds within the debt limit as of April 1, 2015, is as follows for fiscal year 2015-2016 to fiscal year 2021-2022:

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Principal and Interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015-2016</td>
<td>$687,999,746</td>
</tr>
<tr>
<td>2016-2017</td>
<td>680,985,413</td>
</tr>
<tr>
<td>2017-2018</td>
<td>642,351,670</td>
</tr>
<tr>
<td>2018-2019</td>
<td>633,101,421</td>
</tr>
<tr>
<td>2019-2020</td>
<td>586,094,887</td>
</tr>
<tr>
<td>2020-2021</td>
<td>522,104,133</td>
</tr>
<tr>
<td>2021-2022</td>
<td>524,378,042</td>
</tr>
</tbody>
</table>

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 2022-2023 to fiscal year 2034-2035.
when the final installment of $53,083,719 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 $233,500,000, all or part of which is excludable in determining the power of the State to issue general obligation bonds, pursuant to Article VII, Section 13 of the State Constitution.

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

(A) As calculated from the state comptroller's bond fund report as of March 31, 2015, adjusted for:

   (i) Appropriations to be funded by general obligation bonds or reimbursable general obligation bonds as provided in House Bill
No. 500, H.D. 1, S.D. 1, C.D. 1 (the General Appropriations Act of 2015);

(ii) Lapses as provided in House Bill No. 500, H.D. 1, S.D. 1, C.D. 1 (the General Appropriations Act of 2015);

(iii) Appropriations to be funded by general obligation bonds or reimbursable general obligation bonds as provided in House Bill No. 290, H.D. 2, S.D. 1, C.D. 1 (the Judiciary Appropriations Act of 2015);

(iv) Lapses as provided in House Bill No. 290, H.D. 2, S.D. 1, C.D. 1 (the Judiciary Appropriations Act of 2015); and

(v) Appropriations to be funded by general obligation bonds or reimbursable general obligation bonds as provided in Senate Bill No. 284, S.D. 2, H.D. 2, C.D. 1, Senate Bill No. 892, S.D. 2, H.D. 3, C.D. 1, and Senate Bill No. 1078, S.D. 1, H.D. 1, C.D. 1;
the total amount of authorized but unissued
general obligation bonds is $2,422,975,155. The
total amount of general obligation bonds
authorized in this Act is $944,607,497. The
total amount of general obligation bonds
previously authorized and unissued, as adjusted,
and the general obligation bonds authorized in
this Act is $3,367,582,652.

(B) As reported by the department of budget and
finance the outstanding principal amount of bonds
constituting instruments of indebtedness under
which the State may incur a contingent liability
as a guarantor is $233,500,000, all or part of
which is excludable in determining the power of
the State to issue general obligation bonds,
pursuant to Article VII, Section 13 of the State
Constitution.

(5) Proposed general obligation bond issuance. As
reported therein for the fiscal years 2014-2015, 2015-
proposed to issue $500,000,000 in general obligation bonds semiannually during fiscal year 2015-2016, $550,000,000 in general obligation bonds semiannually during fiscal year 2016-2017, and $325,000,000 in general obligation bonds semiannually during fiscal years 2017-2018 and 2018-2019. It has been the practice of the State to issue twenty-year serial bonds with principal repayments beginning in the fifth year, the bonds 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 that are proposed to be issued.

(6) Sufficiency of proposed general obligation bond issuance to meet the requirements of authorized and unissued bonds, as adjusted, and bonds authorized by this Act. From the schedule reported in paragraph (5), the total amount of general obligation bonds that the State proposes to issue during the fiscal years
2015-2016 to 2017-2018 is $2,750,000,000. An additional $650,000,000 is proposed to be issued in fiscal year 2018-2019. The total amount of $2,750,000,000 which is proposed to be issued through fiscal year 2017-2018 is sufficient to meet the requirements of the authorized and unissued bonds, as adjusted, the total amount of which is $3,367,582,652 reported in paragraph (4), except for $617,582,652. It is assumed that the appropriations to which an additional $617,582,652 in bond issuance needs to be applied will have been encumbered as of June 30, 2018. The $650,000,000 which is proposed to be issued in fiscal year 2018-2019 will be sufficient to meet the requirements of the June 30, 2018 encumbrances in the amount of $617,582,652. The amount of assumed encumbrances as of June 30, 2018 is reasonable and conservative, based upon an inspection of June 30 encumbrances of the general obligation bond fund as reported by the state comptroller. Thus, taking into account the amount of authorized and unissued bonds,
as adjusted, and the bonds authorized by this Act versus the amount of bonds proposed to be issued by June 30, 2018, and the amount of June 30, 2018 encumbrances versus the amount of bonds proposed to be issued in fiscal year 2018-2019, the legislature finds that in the aggregate, the amount of bonds proposed to be issued is sufficient to meet the requirements of all authorized and unissued bonds and the bonds authorized by this Act.

(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 issued because:

(i) It is not known exactly when projects for
which reimbursable bonds have been authorized in prior acts and in this Act 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 legislature notes that with respect to the principal and interest on outstanding general obligation bonds, according to the department of budget and finance, the average proportion of principal and interest which is excludable each year from the calculation against the debt limit is 0.67 per cent for approximately ten years from fiscal year 2014-2015 to fiscal year 2023-2024. For the purpose of this declaration, the assumption is made that 0.50 per cent of each bond issue will be excludable from the debt limit, an assumption that the legislature 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 those guaranties does not exceed seven per cent 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 2014-2015, 2015-2016, 2016-2017, 2017-2018, and 2018-2019 are as follows:
<table>
<thead>
<tr>
<th>Fiscal year</th>
<th>Total amount of General Obligation Bonds not otherwise excluded by Article VII, Section 13 of the State Constitution</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014-2015</td>
<td>$6,070,550,000</td>
</tr>
<tr>
<td>2015-2016</td>
<td>7,065,550,000</td>
</tr>
<tr>
<td>2016-2017</td>
<td>8,160,050,000</td>
</tr>
<tr>
<td>2017-2018</td>
<td>8,806,800,000</td>
</tr>
<tr>
<td>2018-2019</td>
<td>9,453,750,000</td>
</tr>
</tbody>
</table>

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 will have been established as heretofore provided, 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), all of the outstanding guaranties can
be excluded.

(8) Determination whether the debt limit will be exceeded
at the time of issuance. From the foregoing and on
the assumption that all of the bonds identified in
paragraph (5) will be issued at an interest rate not
to exceed 6.00 per cent in fiscal years 2016 through
2019, it can be determined from the following schedule
that the bonds which are proposed to be issued, which
include all authorized and unissued bonds previously
authorized, as adjusted, general obligation bonds, and
instruments of indebtedness under which the State
incurs a contingent liability as a guarantor authorized in this Act, will not cause the debt limit to be exceeded at the time of such issuance:

<table>
<thead>
<tr>
<th>Time of Issuance and Amount to be Counted Against Debt Limit</th>
<th>Debt Limit at Time of Issuance</th>
<th>Greatest Amount and Year of Highest Principal and Interest on Bonds and Guaranties</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st half FY 2015-2016 $497,500,000</td>
<td>1,153,312,266</td>
<td>701,482,632 (2016-2017)</td>
</tr>
<tr>
<td>2nd half FY 2015-2016 $497,500,000</td>
<td>1,153,312,266</td>
<td>706,437,401 (2017-2018)</td>
</tr>
<tr>
<td>1st half FY 2016-2017 $547,250,000</td>
<td>1,176,812,522</td>
<td>729,020,051 (2018-2019)</td>
</tr>
<tr>
<td>2nd half FY 2016-2017 $547,250,000</td>
<td>1,176,812,522</td>
<td>761,855,051 (2018-2019)</td>
</tr>
<tr>
<td>1st half FY 2017-2018 $323,375,000</td>
<td>1,229,520,792</td>
<td>771,556,301 (2018-2019)</td>
</tr>
<tr>
<td>2nd half FY 2017-2018 $323,375,000</td>
<td>1,229,520,792</td>
<td>787,657,300 (2021-2022)</td>
</tr>
<tr>
<td>1st half FY 2018-2019 $323,375,000</td>
<td>1,285,885,420</td>
<td>809,248,388 (2023-2024)</td>
</tr>
<tr>
<td>2nd half FY 2018-2019 $323,375,000</td>
<td>1,285,885,420</td>
<td>841,245,888 (2023-2024)</td>
</tr>
</tbody>
</table>

(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.

SECTION 2. The legislature finds the bases for the
declaration of findings set forth in this Act are reasonable.
The assumptions set forth in this Act 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 of the legislature that such
matters must remain subject to substantial flexibility.

SECTION 3. Authorization for issuance of general
obligation bonds. General obligation bonds may be issued as
provided by law in an amount that may be necessary to finance
projects authorized in House Bill No. 500, H.D. 1, S.D. 1, C.D.
1 (the General Appropriations Act of 2015), House Bill No. 290,
H.D. 2, S.D. 1, C.D. 1 (the Judiciary Appropriations Act of
2015), Senate Bill No. 284, S.D. 2, H.D. 2, C.D. 1, Senate Bill No.
892, S.D. 2, H.D. 3, C.D. 1, and Senate Bill No. 1078, S.D. 1,
H.D.1, C.D.1; passed by the legislature during this regular session of 2015 and designated to be financed from the general obligation bond fund and from the general obligation bond fund with debt service cost to be paid from special funds; provided that the sum total of general obligation bonds so issued shall not exceed $944,607,497.

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

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

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

SECTION 6. This Act shall take effect upon its approval.
APPROVED this 26 day of JUN, 2015

GOVERNOR OF THE STATE OF HAWAII