



GOV. MSG. NO. 1176

EXECUTIVE CHAMBERS
HONOLULU

DAVID Y. IGE
GOVERNOR

June 20, 2016

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 20, 2016, the following bill was signed into law:

HB1543 SD1 CD1

RELATING TO STATE BONDS
ACT 075 (16)

Sincerely,

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:

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



1 guarantor, but only to the extent the principal amount
 2 of such bonds does not exceed seven per cent of the
 3 principal amount of outstanding general obligation
 4 bonds not otherwise excluded under said Article VII,
 5 Section 13.

6 (2) Actual and estimated debt limits. The limit on
 7 principal and interest of general obligation bonds
 8 issued by the State, actual for fiscal year 2015-2016
 9 and estimated for each fiscal year from 2016-2017 to
 10 2018-2019, is as follows:

| 11 | Fiscal | Net General | |
|----|-------------|----------------------|-------------------|
| 12 | <u>Year</u> | <u>Fund Revenues</u> | <u>Debt Limit</u> |
| 13 | 2012-2013 | \$6,226,008,766 | |
| 14 | 2013-2014 | 6,088,589,303 | |
| 15 | 2014-2015 | 6,569,327,192 | |
| 16 | 2015-2016 | 6,988,943,000 | \$ 1,164,508,724 |
| 17 | 2016-2017 | 7,178,034,000 | 1,211,556,336 |
| 18 | 2017-2018 | 7,470,646,000 | 1,278,738,759 |
| 19 | 2018-2019 | (not applicable) | 1,334,320,085 |
| 20 | | | |

21 For fiscal years 2015-2016, 2016-2017, 2017-2018, and
 22 2018-2019, respectively, the debt limit is derived by
 23 multiplying the average of the net general fund
 24 revenues for the three preceding fiscal years by



1 eighteen and one-half per cent. The net general fund
2 revenues for fiscal years 2012-2013, 2013-2014, and
3 2014-2015 are actual, as certified by the director of
4 finance in the Statement of the Debt Limit of the
5 State of Hawaii as of July 1, 2015, dated November 24,
6 2015. The net general fund revenues for fiscal years
7 2015-2016 to 2017-2018 are estimates, based on general
8 fund revenue estimates made as of March 14, 2016, by
9 the council on revenues, the body assigned by Article
10 VII, Section 7 of the State Constitution to make such
11 estimates, and based on estimates made by the
12 department of budget and finance of those receipts
13 which cannot be included as general fund revenues for
14 the purpose of calculating the debt limit, all of
15 which estimates the legislature finds to be
16 reasonable.

17 (3) Principal and interest on outstanding bonds applicable
18 to the debt limit.

19 (A) According to the department of budget and
20 finance, the total amount of principal and



1 interest on outstanding general obligation bonds,
2 after the exclusions permitted by Article VII,
3 Section 13 of the State Constitution, for
4 determining the power of the State to issue
5 general obligation bonds within the debt limit as
6 of April 1, 2016, is as follows for fiscal year
7 2016-2017 to fiscal year 2022-2023:

| 8 | Fiscal | Principal |
|----|-------------|---------------------|
| 9 | <u>Year</u> | <u>and Interest</u> |
| 10 | 2016-2017 | \$707,019,205 |
| 11 | 2017-2018 | 669,611,446 |
| 12 | 2018-2019 | 688,618,752 |
| 13 | 2019-2020 | 642,793,901 |
| 14 | 2020-2021 | 578,519,058 |
| 15 | 2021-2022 | 575,562,107 |
| 16 | 2022-2023 | 557,199,708 |

17 The department of budget and finance further
18 reports that the amount of principal and interest
19 on outstanding bonds applicable to the debt limit
20 generally continues to decline each year from
21 fiscal year 2023-2024 to fiscal year 2035-2036
22 when the final installment of \$57,750,715 shall
23 be due and payable.



1 (B) The department of budget and finance further
2 reports that the outstanding principal amount of
3 bonds constituting instruments of indebtedness
4 under which the State may incur a contingent
5 liability as a guarantor is \$233,500,000, all or
6 part of which is excludable in determining the
7 power of the State to issue general obligation
8 bonds, pursuant to Article VII, Section 13 of the
9 State Constitution.

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

13 (A) As calculated from the state comptroller's bond
14 fund report as of March 31, 2016, adjusted for:
15 (i) Appropriations to be funded by general
16 obligation bonds or reimbursable general
17 obligation bonds as provided in Act 119,
18 Session Laws of Hawaii 2015 (the General
19 Appropriations Act of 2015), to be expended
20 in fiscal year 2016-2017, adjusted for



1 additional appropriations provided in House
2 Bill No. 1700, H.D. 1, S.D. 1, C.D. 1 (the
3 Supplemental Appropriations Act of 2016);
4 and

5 (ii) Lapses as provided in House Bill No. 1700,
6 H.D. 1, S.D. 1, C.D. 1 (the Supplemental
7 Appropriations Act of 2016);

8 the total amount of authorized but unissued
9 general obligation bonds is \$2,491,246,627. The
10 total amount of general obligation bonds
11 authorized in this Act is \$967,283,000. The
12 total amount of general obligation bonds
13 previously authorized and unissued, as adjusted,
14 and the general obligation bonds authorized in
15 this Act is \$3,458,529,627.

16 (B) As reported by the department of budget and
17 finance the outstanding principal amount of bonds
18 constituting instruments of indebtedness under
19 which the State may incur a contingent liability
20 as a guarantor is \$233,500,000, all or part of



1 which is excludable in determining the power of
2 the State to issue general obligation bonds,
3 pursuant to Article VII, Section 13 of the State
4 Constitution.

- 5 (5) Proposed general obligation bond issuance. As
6 reported therein for the fiscal years 2016-2017, 2017-
7 2018, and 2018-2019, the State proposes to issue
8 \$600,000,000 in general obligation bonds during the
9 first half of fiscal year 2016-2017, \$525,000,000 in
10 general obligation bonds during the second half of
11 fiscal year 2016-2017, \$600,000,000 in general
12 obligation bonds during the first half of fiscal year
13 2017-2018, \$600,000,000 in general obligation bonds
14 during the second half of fiscal year 2017-2018,
15 \$600,000,000 in general obligation bonds during the
16 first half of fiscal year 2018-2019, and \$600,000,000
17 in general obligation bonds during the second half of
18 fiscal year 2018-2019. The State anticipates issuing
19 twenty-year serial bonds with principal repayments
20 beginning in the third year, payable in substantially



1 equal annual installments of principal and interest
2 payment with interest payments commencing six months
3 from the date of issuance and being paid semi-annually
4 thereafter. It is assumed that this practice will
5 continue to be applied to the bonds that are proposed
6 to be issued.

7 (6) Sufficiency of proposed general obligation bond
8 issuance to meet the requirements of authorized and
9 unissued bonds, as adjusted, and bonds authorized by
10 this Act. From the schedule reported in paragraph
11 (5), the total amount of general obligation bonds that
12 the State proposes to issue during the fiscal years
13 2016-2017 to 2017-2018 is \$2,325,000,000. An
14 additional \$1,200,000,000 is proposed to be issued in
15 fiscal year 2018-2019. The total amount of
16 \$2,325,000,000 which is proposed to be issued through
17 fiscal year 2017-2018 is sufficient to meet the
18 requirements of the authorized and unissued bonds, as
19 adjusted, the total amount of which is \$3,458,529,627
20 reported in paragraph (4), except for \$1,133,529,627.



1 It is assumed that the appropriations to which an
2 additional \$1,133,529,627 in bond issuance needs to be
3 applied will have been encumbered as of June 30, 2018.
4 The \$1,200,000,000 which is proposed to be issued in
5 fiscal year 2018-2019 will be sufficient to meet the
6 requirements of the June 30, 2018 encumbrances in the
7 amount of \$1,133,529,627. The amount of assumed
8 encumbrances as of June 30, 2018 is reasonable and
9 conservative, based upon an inspection of June 30
10 encumbrances of the general obligation bond fund as
11 reported by the state comptroller. Thus, taking into
12 account the amount of authorized and unissued bonds,
13 as adjusted, and the bonds authorized by this Act
14 versus the amount of bonds proposed to be issued by
15 June 30, 2018, and the amount of June 30, 2018
16 encumbrances versus the amount of bonds proposed to be
17 issued in fiscal year 2018-2019, the legislature finds
18 that in the aggregate, the amount of bonds proposed to
19 be issued is sufficient to meet the requirements of



1 all authorized and unissued bonds and the bonds
2 authorized by this Act.

3 (7) Bonds excludable in determining the power of the State
4 to issue bonds. As noted in paragraph (1), certain
5 bonds are excludable in determining the power of the
6 State to issue general obligation bonds.

7 (A) General obligation reimbursable bonds can be
8 excluded under certain conditions. It is not
9 possible to make a conclusive determination as to
10 the amount of reimbursable bonds which are
11 excludable from the amount of each proposed bond
12 issued because:

13 (i) It is not known exactly when projects for
14 which reimbursable bonds have been
15 authorized in prior acts and in this Act
16 will be implemented and will require the
17 application of proceeds from a particular
18 bond issue; and

19 (ii) Not all reimbursable general obligation
20 bonds may qualify for exclusion.



1 However, the legislature notes that with respect to
2 the principal and interest on outstanding general
3 obligation bonds, according to the department of
4 budget and finance, the average proportion of
5 principal and interest which is excludable each year
6 from the calculation against the debt limit is 0.61
7 per cent for approximately ten years from fiscal year
8 2015-2016 to fiscal year 2024-2025. For the purpose
9 of this declaration, the assumption is made that 0.50
10 per cent of each bond issue will be excludable from
11 the debt limit, an assumption which the legislature
12 finds to be reasonable and conservative.

13 (B) Bonds constituting instruments of indebtedness under
14 which the State incurs a contingent liability as a
15 guarantor can be excluded but only to the extent the
16 principal amount of such guaranties does not exceed
17 seven per cent of the principal amount of outstanding
18 general obligation bonds not otherwise excluded under
19 subparagraph (A) of this paragraph (7) and provided
20 that the State shall establish and maintain a reserve



1 in an amount in reasonable proportion to the
 2 outstanding loans guaranteed by the State as provided
 3 by law. According to the department of budget and
 4 finance and the assumptions presented herein, the
 5 total principal amount of outstanding general
 6 obligation bonds and general obligation bonds proposed
 7 to be issued, which are not otherwise excluded under
 8 Article VII, Section 13 of the State Constitution for
 9 the fiscal years 2015-2016, 2016-2017, 2017-2018, and
 10 2018-2019 are as follows:

| 11 12 13 14 15 | <u>Fiscal year</u> | Total amount of General Obligation Bonds not otherwise excluded by Article VII, Section 13 <u>of the State Constitution</u> |
|----------------------------|--------------------|---|
| 16 | 2015-2016 | 6,395,820,000 |
| 17 | 2016-2017 | 7,515,195,000 |
| 18 | 2017-2018 | 8,709,195,000 |
| 19 | 2018-2019 | 9,903,195,000 |

20 Based on the foregoing and based on the assumption
 21 that the full amount of a guaranty is immediately due
 22 and payable when such guaranty changes from a
 23 contingent liability to an actual liability, the
 24 aggregate principal amount of the portion of the



1 outstanding guaranties and the guaranties proposed to
2 be incurred, which does not exceed seven per cent of
3 the average amount set forth in the last column of the
4 above table and for which reserve funds have been or
5 will have been established as heretofore provided, can
6 be excluded in determining the power of the State to
7 issue general obligation bonds. As it is not possible
8 to predict with a reasonable degree of certainty when
9 a guaranty will change from a contingent liability to
10 an actual liability, it is assumed in conformity with
11 fiscal conservatism and prudence, that all guaranties
12 not otherwise excluded pursuant to Article VII,
13 Section 13 of the State Constitution will become due
14 and payable in the same fiscal year in which the
15 greatest amount of principal and interest on general
16 obligation bonds, after exclusions, occurs. Thus,
17 based on such assumptions and on the determination in
18 paragraph (8), all of the outstanding guaranties can
19 be excluded.



1 (8) Determination whether the debt limit will be exceeded
2 at the time of issuance. From the foregoing and on
3 the assumption that all of the bonds identified in
4 paragraph (5) will be issued at an interest rate not
5 to exceed 6.00 percent in fiscal years 2017 through
6 2019, it can be determined from the following schedule
7 that the bonds which are proposed to be issued, which
8 include all authorized and unissued bonds previously
9 authorized, as adjusted, general obligation bonds, and
10 instruments of indebtedness under which the State
11 incurs a contingent liability as a guarantor
12 authorized in this Act, will not cause the debt limit
13 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> |
|----|--|---|---|
| 6 | 1st half FY 2016-2017 | | |
| 7 | \$597,000,000 | 1,211,556,336 | 727,822,382 (2018-2019) |
| 8 | 2nd half FY 2016-2017 | | |
| 9 | \$522,375,000 | 1,211,556,336 | 759,164,882 (2018-2019) |
| 10 | 1st half FY 2017-2018 | | |
| 11 | \$597,000,000 | 1,278,738,759 | 785,380,008 (2019-2020) |
| 12 | 2nd half FY 2017-2018 | | |
| 13 | \$597,000,000 | 1,278,738,759 | 821,200,008 (2019-2020) |
| 14 | 1st half FY 2018-2019 | | |
| 15 | \$597,000,000 | 1,334,320,085 | 851,158,365 (2021-2022) |
| 16 | 2nd half FY 2018-2019 | | |
| 17 | \$597,000,000 | 1,334,320,085 | 906,293,365 (2021-2022) |

(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 are reasonable.
3 The assumptions set forth in this Act with respect to the
4 principal amount of general obligation bonds which will be
5 issued, the amount of principal and interest on reimbursable
6 general obligation bonds which are assumed to be excludable, and
7 the assumed maturity structure shall not be deemed to be
8 binding, it being the understanding of the legislature that such
9 matters 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. 1700, H.D. 1, S.D. 1, C.D.
14 1 (the Supplemental Appropriations Act of 2016); passed by the
15 legislature during this regular session of 2016 and designated
16 to be financed from the general obligation bond fund and from
17 the general obligation bond fund with debt service cost to be
18 paid from special funds; provided that the sum total of general
19 obligation bonds so issued shall not exceed \$967,283,000.



1 Any law to the contrary notwithstanding, general obligation
2 bonds may be issued from time to time in accordance with Section
3 39-16, Hawaii Revised Statutes, in such principal amount as may
4 be required to refund any general obligation bonds of the State
5 of Hawaii heretofore or hereafter issued pursuant to law.

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

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

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

APPROVED this 20 day of JUN , 2016



GOVERNOR OF THE STATE OF HAWAII

