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# 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



1 payable in the current or any future fiscal year,  
2 whichever is higher, on such bonds and on all  
3 outstanding general obligation bonds to exceed: a sum  
4 equal to twenty percent of the average of the general  
5 fund revenues of the State in the three fiscal years  
6 immediately preceding such issuance until June 30,  
7 1982; and thereafter, a sum equal to eighteen and one-  
8 half percent of the average of the general fund  
9 revenues of the State in the three fiscal years  
10 immediately preceding such issuance." Article VII,  
11 Section 13 of the State Constitution also provides  
12 that in determining the power of the State to issue  
13 general obligation bonds, certain bonds are  
14 excludable, including "reimbursable general obligation  
15 bonds issued for a public undertaking, improvement or  
16 system but only to the extent that reimbursements to  
17 the general fund are in fact made from the net  
18 revenue, or net user tax receipts, or combination of  
19 both, as determined for the immediately preceding  
20 fiscal year" and bonds constituting instruments of  
21 indebtedness under which the State incurs a contingent



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

7 (2) Actual and estimated debt limits. The limit on  
 8 principal and interest of general obligation bonds  
 9 issued by the State, actual for fiscal year 2016-2017  
 10 and estimated for each fiscal year from 2017-2018 to  
 11 2020-2021, is as follows:

Fiscal	Net General	
<u>Year</u>	<u>Fund Revenues</u>	<u>Debt Limit</u>

14  
 15 For fiscal years , , , , and  
 16 , respectively, the debt limit is derived by  
 17 multiplying the average of the net general fund  
 18 revenues for the three preceding fiscal years by  
 19 eighteen and one-half per cent. The net general fund  
 20 revenues for fiscal years , , and  
 21 are actual, as certified by the director of finance in



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1           the Statement of the Debt Limit of the State of Hawaii  
2           as of July 1, 2016, dated           . The net general  
3           fund revenues for fiscal years           to           are  
4           estimates, based on general fund revenue estimates  
5           made as of March           ,           , by the council on  
6           revenues, the body assigned by Article VII, Section 7  
7           of the State Constitution to make such estimates, and  
8           based on estimates made by the department of budget  
9           and finance of those receipts which cannot be included  
10          as general fund revenues for the purpose of  
11          calculating the debt limit, all of which estimates the  
12          legislature finds to be reasonable.

13          (3) Principal and interest on outstanding bonds applicable  
14          to the debt limit.

15           (A) According to the department of budget and  
16           finance, the total amount of principal and  
17           interest on outstanding general obligation bonds,  
18           after the exclusions permitted by Article VII,  
19           Section 13 of the State Constitution, for  
20           determining the power of the State to issue  
21           general obligation bonds within the debt limit as



1 of April 1, 2017, is as follows for fiscal year  
 2 2017-2018 to fiscal year 2023-2024:

3 Fiscal Principal  
 4 Year and Interest

5  
 6 The department of budget and finance further  
 7 reports that the amount of principal and interest  
 8 on outstanding bonds applicable to the debt limit  
 9 generally continues to decline each year from  
 10 fiscal year to fiscal year when the  
 11 final installment of \$ shall be due and  
 12 payable.

13 (B) The department of budget and finance further  
 14 reports that the outstanding principal amount of  
 15 bonds constituting instruments of indebtedness  
 16 under which the State may incur a contingent  
 17 liability as a guarantor is \$ , all or  
 18 part of which is excludable in determining the  
 19 power of the State to issue general obligation  
 20 bonds, pursuant to Article VII, Section 13 of the  
 21 State Constitution.



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

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

7 (i) Appropriations to be funded by general  
8 obligation bonds or reimbursable general  
9 obligation bonds as provided in House Bill  
10 No. , (the General Appropriations Act  
11 of 2017); and

12 (ii) Lapses as provided in House Bill No. ,  
13 (the General Appropriations Act of 2017);

14 (iii) Appropriations to be funded by general  
15 obligation bonds or reimbursable general  
16 obligation bonds as provided in House Bill  
17 No. , (the Judiciary Appropriations Act  
18 of 2017); and

19 (iv) Lapses as provided in House Bill No. ,  
20 (the Judiciary Appropriations Act of 2017);



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1           the total amount of authorized but unissued  
 2           general obligation bonds is \$           . The total  
 3           amount of general obligation bonds authorized in  
 4           this Act is \$           . The total amount of  
 5           general obligation bonds previously authorized  
 6           and unissued, as adjusted, and the general  
 7           obligation bonds authorized in this Act is  
 8           \$           .

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

18          (5) Proposed general obligation bond issuance. As  
 19          reported therein for the fiscal years           ,           ,  
 20          ,           , and           , the State proposed to  
 21          issue \$           in general obligation bonds during the



1 first half of fiscal year , \$ in general  
2 obligation bonds during the second half of fiscal year  
3 , \$ in general obligation bonds during  
4 the first half of fiscal year , \$ in  
5 general obligation bonds during the second half of  
6 fiscal year , \$ in general obligation  
7 bonds during the first half of fiscal year ,  
8 and \$ in general obligation bonds during the  
9 second half of fiscal year . The State  
10 anticipates issuing twenty-year serial bonds with  
11 principal repayments beginning in the fifth year, the  
12 bonds payable in substantially equal annual  
13 installments of principal and interest payment with  
14 interest payments commencing six months from the date  
15 of issuance and being paid semi-annually thereafter.  
16 It is assumed that this practice will continue to be  
17 applied to the bonds that are proposed to be issued.  
18 (6) Sufficiency of proposed general obligation bond  
19 issuance to meet the requirements of authorized and  
20 unissued bonds, as adjusted, and bonds authorized by  
21 this Act. From the schedule reported in paragraph





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1 (5), the total amount of general obligation bonds that  
2 the State proposes to issue during the fiscal years  
3 to is \$ . An additional  
4 \$ is proposed to be issued in fiscal year  
5 . The total amount of \$ that is  
6 proposed to be issued through fiscal year is  
7 sufficient to meet the requirements of the authorized  
8 and unissued bonds, as adjusted, the total amount of  
9 which is \$ reported in paragraph (4), except  
10 for \$ . It is assumed that the appropriations  
11 to which an additional \$ in bond issuance  
12 needs to be applied will have been encumbered as of  
13 June 30, 2020. The \$ that is proposed to be  
14 issued in fiscal year will be sufficient to  
15 meet the requirements of the June 30, 2020  
16 encumbrances in the amount of \$ . The amount of  
17 assumed encumbrances as of June 30, 2020 is reasonable  
18 and conservative, based upon an inspection of June 30  
19 encumbrances of the general obligation bond fund as  
20 reported by the state comptroller. Thus, taking into  
21 account the amount of authorized and unissued bonds,



1 as adjusted, and the bonds authorized by this Act  
2 versus the amount of bonds proposed to be issued by  
3 June 30, 2020, and the amount of June 30, 2020  
4 encumbrances versus the amount of bonds proposed to be  
5 issued in fiscal year , the legislature finds  
6 that in the aggregate, the amount of bonds proposed to  
7 be issued is sufficient to meet the requirements of  
8 all authorized and unissued bonds and the bonds  
9 authorized by this Act.

10 (7) Bonds excludable in determining the power of the State  
11 to issue bonds. As noted in paragraph (1), certain  
12 bonds are excludable in determining the power of the  
13 State to issue general obligation bonds.

14 (A) General obligation reimbursable bonds can be  
15 excluded under certain conditions. It is not  
16 possible to make a conclusive determination as to  
17 the amount of reimbursable bonds that are  
18 excludable from the amount of each proposed bond  
19 issued because:

20 (i) It is not known exactly when projects for  
21 which reimbursable bonds have been



1 authorized in prior acts and in this Act  
 2 will be implemented and will require the  
 3 application of proceeds from a particular  
 4 bond issue; and

5 (ii) Not all reimbursable general obligation  
 6 bonds may qualify for exclusion.

7 However, the legislature notes that with respect to  
 8 the principal and interest on outstanding general  
 9 obligation bonds, according to the department of  
 10 budget and finance, the average proportion of  
 11 principal and interest that is excludable each year  
 12 from the calculation against the debt limit is 0.61  
 13 per cent for approximately ten years from fiscal year  
 14 to fiscal year . For the purpose of this  
 15 declaration, the assumption is made that 0.50 per cent  
 16 of each bond issue will be excludable from the debt  
 17 limit, an assumption that the legislature finds to be  
 18 reasonable and conservative.

19 (B) Bonds constituting instruments of indebtedness under  
 20 which the State incurs a contingent liability as a  
 21 guarantor can be excluded but only to the extent the



1 principal amount of those guaranties does not exceed  
 2 seven per cent of the principal amount of outstanding  
 3 general obligation bonds not otherwise excluded under  
 4 subparagraph (A) of this paragraph (7); and provided  
 5 that the State shall establish and maintain a reserve  
 6 in an amount in reasonable proportion to the  
 7 outstanding loans guaranteed by the State as provided  
 8 by law. According to the department of budget and  
 9 finance and the assumptions presented herein, the  
 10 total principal amount of outstanding general  
 11 obligation bonds and general obligation bonds proposed  
 12 to be issued, which are not otherwise excluded under  
 13 Article VII, Section 13 of the State Constitution for  
 14 the fiscal years , , , , and  
 15 are as follows:

16		Total Amount of
17		General Obligation Bonds
18		Not Otherwise Excluded by
19		Article VII, Section 13
20	<u>Fiscal Year</u>	<u>of the State Constitution</u>

21

22 Based on the foregoing and based on the assumption

23 that the full amount of a guaranty is immediately due



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



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1 paragraph (8), all of the outstanding guaranties can  
2 be excluded.

3 (8) Determination whether the debt limit will be exceeded  
4 at the time of issuance. From the foregoing and on  
5 the assumption that all of the bonds identified in  
6 paragraph (5) will be issued at an interest rate not  
7 to exceed 6.00 per cent in fiscal years 2018 through  
8 2021, it can be determined from the following schedule  
9 that the bonds that are proposed to be issued, which  
10 include all authorized and unissued bonds previously  
11 authorized, as adjusted, general obligation bonds, and  
12 instruments of indebtedness under which the State  
13 incurs a contingent liability as a guarantor  
14 authorized in this Act, will not cause the debt limit  
15 to be exceeded at the time of such issuance:

16			Greatest Amount
17	Time of Issuance		and Year of
18	and Amount to be	Debt Limit	Highest Principal
19	Counted Against	at Time of	and Interest
20	<u>Debt Limit</u>	<u>Issuance</u>	<u>on Bonds and Guaranties</u>

21  
22 (9) Overall and concluding finding. From the facts,  
23 estimates, and assumptions stated in this declaration



1 of findings, the conclusion is reached that the total  
2 amount of principal and interest estimated for the  
3 general obligation bonds authorized in this Act, and  
4 for all bonds authorized and unissued, and calculated  
5 for all bonds issued and outstanding, and all  
6 guaranties, will not cause the debt limit to be  
7 exceeded at the time of issuance.

8 SECTION 2. The legislature finds the bases for the  
9 declaration of findings set forth in this Act are reasonable.  
10 The assumptions set forth in this Act with respect to the  
11 principal amount of general obligation bonds that will be  
12 issued, the amount of principal and interest on reimbursable  
13 general obligation bonds that are assumed to be excludable, and  
14 the assumed maturity structure shall not be deemed to be  
15 binding, it being the understanding of the legislature that such  
16 matters shall remain subject to substantial flexibility.

17 SECTION 3. Authorization for issuance of general  
18 obligation bonds. General obligation bonds may be issued as  
19 provided by law in an amount that may be necessary to finance  
20 projects authorized in House Bill No. (the General  
21 Appropriations Act of 2017) and House Bill No. (the



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1 Judiciary Appropriations Act of 2017); passed by the legislature  
 2 during this regular session of 2017 and designated to be  
 3 financed from the general obligation bond fund and from the  
 4 general obligation bond fund with debt service cost to be paid  
 5 from special funds; provided that the sum total of general  
 6 obligation bonds so issued shall not exceed \$ .

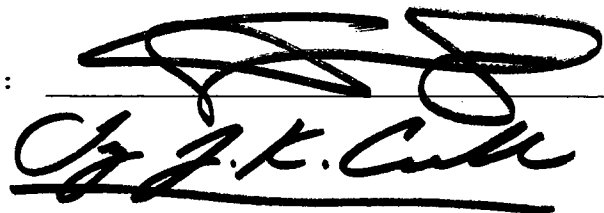
7 Any law to the contrary notwithstanding, general obligation  
 8 bonds may be issued from time to time in accordance with section  
 9 39-16, Hawaii Revised Statutes, in such principal amount as may  
 10 be required to refund any general obligation bonds of the State  
 11 of Hawaii heretofore or hereafter issued pursuant to law.

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

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

19 SECTION 6. This Act shall take effect upon its approval.  
 20

INTRODUCED BY:






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**Report Title:**

State Bonds

**Description:**

Authorizes issuance of general obligation bonds. Makes findings required by Article VII, Section 13 of the State Constitution to declare that issuance of authorized bonds will not cause the debt limit to be exceeded.

*The summary description of legislation appearing on this page is for informational purposes only and is not legislation or evidence of legislative intent.*

