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STATE OF HAWAII  
TO THE SENATE COMMITTEE ON WAYS AND MEANS  
AND  
THE HOUSE COMMITTEE ON FINANCE

January 5, 2010

Chairs Kim and Oshiro and Members of the Committees:

Thank you for this opportunity to present to you an overview of the State's financial condition.

We are currently dealing with the economic and fiscal challenges that have resulted from the severe recession of 2008. The national and global economic events in the past two years have had a profoundly adverse impact on Hawaii. Since 2008, the State has experienced a significant contraction in businesses and employment and unprecedented reductions in tax revenues. The financial crisis and economic downturn have created great hardship on all levels of government by reducing revenues at a time when operating costs continue to rise. However, we are not alone in this experience. As reported by the National Association of State Budget Officers, the majority of state governments currently face major shortfalls in their budgets.

REVENUE PROJECTIONS

Revenue projections from the Council on Revenues (COR) in the past two years have been continually revised, mostly in the downward direction.

On September 29, 2009, the COR changed its general fund tax revenue projections to reflect a decrease of -1.5% for FY 10 and an increase of 6.5% for FY 11. (The previous projections were 0% and 5.6%, respectively.) At its most recent meeting on December 17,

2009, the COR revised its projections to reflect a decrease of -2.5% for FY 10 and an increase of 7.6% for FY 11.

Actual general fund tax collections in the first five months of FY 10 (July through November 2009) decreased by a cumulative -6.5% over the previous year.

To put these numbers in perspective, general fund tax revenues increased by 8.3% in FY 04, 16% in FY 05, 10.9% in FY 06, 3.4% in FY 07, and 1.2% in FY 08; positive growth was reversed by a decline of -9.5% in FY 09. Clearly, lower revenue growth has resulted from the economic moderation in recent years, and negative growth rates in recent years are the fiscal reality we face in the current recession.

#### THE BUDGET SHORTFALL

The cumulative effect of successive revenue reductions is a substantial decrease in the amount of money that the State can expect in the immediate and near future. Given the level of spending that had been authorized and the anticipated rising cost of government operations, it was clear that our revenues and expenditures were out of balance.

Starting with the execution of last year's budget (FY 2009), the Administration has pursued a deliberate and prudent fiscal policy to control State spending and keep it in line with lower revenue expectations. First, hiring restrictions went into effect for all programs except those affecting public health and safety. Second, a general fund restriction of 4% on discretionary operating costs was applied to all departments. Third, restrictions were placed on specific appropriations outside of the budget.

These restrictive measures continued when additional spending reductions were imposed (2% in January 2009 and 2% in May 2009) as we developed the budget for the Fiscal Biennium 2009-11. Sharply declining State revenues required the most severe budget

reductions in recent history. General fund operating costs were cut by \$270 million over the biennium. The 2009 Legislature further reduced the Executive Branch biennium budget by an additional \$173 million in response to lower revised revenue projections by the COR during the session. These cost cutting decisions and various revenue generation actions by the Legislature and the Administration were instrumental in averting a serious budget shortfall at the end of FY 2009.

However, the fiscal crisis continued as we began the new fiscal biennium on July 1, 2009 with a worse-than-projected revenue picture. Using the official revenue projections from the COR as of June 2009, we had anticipated a budget gap of \$633 million by the end of FY 11. This number became significantly larger, \$1.19 billion, as a result of the COR revisions in August 2009. With the most recent revisions in December 2009, this number has grown to \$1.23 billion. The gap between projected revenues and actual appropriations must be closed to satisfy the constitutional requirement of a balanced budget. This is our paramount responsibility and overriding concern in the current fiscal biennium.

#### REDUCING EXPENSES IN FY 2010

The magnitude of the budget gap has required a substantial and immediate reduction in operating expenses. For FY 2010, spending restrictions and other administrative measures were implemented on July 1, 2009 to reduce overall spending. These included restrictions on specific appropriations, eliminating cash funding for capital improvements, debt restructuring, and a comprehensive restriction of 13.85% on operating budget appropriations.

Because payroll costs are the single largest category of expenditures in the State budget, accounting for 60% of the budget total, they must be reduced for any plan to effectively close the budget gap. Our original plan to implement a furlough of all State employees for 3 days a

month was blocked. This furlough plan would have saved an estimated \$680 million in general funds for the biennium.

To achieve needed payroll savings, a reduction-in-force (RIF) was initiated in August 2009. Concurrently, collective bargaining discussions were pursued with the Hawaii State Teachers Association (HSTA), the Hawaii Government Employees Association (HGEA) and the United Public Workers (UPW) to arrive at contract agreements for the biennium. We have secured a contract with the HGEA and a contract with the HSTA. Negotiations with one of the bargaining units of the UPW are currently in arbitration. At this time, there is no movement on a new agreement with the University of Hawaii Professional Assembly (UHPA) or the other UPW unit. Contracts with the HGEA and the HSTA allow for furloughs averaging two days a month over the biennium. General fund savings on payroll costs including fringe benefits from the furlough plan are estimated to be \$170.7 million in FY 2010.

The combination of all the above actions - - restrictions, debt restructuring, RIF, furlough and other administrative measures - - is expected to reduce general fund spending by a total of \$452.3 million in FY 2010. This is a critical step toward closing the budget gap but it is not enough to close the shortfall completely. The following additional actions are needed in order to balance the 2010 budget and produce a projected \$60.3 million ending fund balance:

1. Transfer excess balances from special funds. Our most recent review of non-general fund accounts indicates a potential \$10 million in excess balances that can be transferred to the General Fund.

2. Delay payment of income tax refunds within the legally allowed 90-day period starting in 2010. This administrative change would provide a one-time savings of \$275 million in FY 2010.
3. Refinance and restructure G.O. bond debt. The refinancing of debt which was recently completed in November 2009 yielded a total of \$97.3 million in savings for the biennium. Additional refunding and restructuring will reduce debt service costs by \$18.6 million in FY 2010.
4. Review expenditure plans and lapse excess authorizations as applicable. We will continue our efforts to closely monitor program expenditure plans to eliminate unnecessary spending and lapse any excess appropriations.

#### REDUCING EXPENSES IN FY 2011: SUPPLEMENTAL BUDGET REQUESTS

As an integral part of budget preparation, departments and agencies have been directed to continue a critical review and re-assessment of programs to determine the core functions and essential services of State government. The overall target is a 13.85% reduction in general funded operating costs for FY 2011. Special funded programs are also required to operate under a ceiling and trim their expenses.

#### The Operating Budget

The Executive Supplemental Budget submission for FY 2011 reflects the following actions:

1. **Reduce State payroll costs.** A total of 1,990 positions (1,693 permanent and 297 temporary) are proposed for elimination. Of this total, 792 positions are vacant. While every department is affected, the biggest reductions are in the largest general funded

programs: Health, Human Services, Public Safety, Accounting and General Services, and Agriculture. The reduction includes the following components:

- Elimination of 792 vacant positions (\$29.2 million saved from all MOF, \$11.1 million in general funds).
- Elimination of up to 1,198 positions identified for layoffs under the August 2009 RIF plan (\$48.8 million saved from all MOF, \$42.7 million in general funds).
- Adjustment in the number of positions that were affected by program changes due to reduction, restructuring, or MOF changes.

For the Department of Education (DOE), the University of Hawaii (UH), and the Hawaii Health Systems Corporation (HHSC), their respective governing boards were given latitude as to how to implement a 13.85% reduction in operating expenses.

The overall changes to the State's workforce are summarized below.

	<u>General Fund</u>	<u>Other MOF</u>	<u>Total</u>
Number of reductions	1,402	588	1,990
Permanent	1,263	430	1,693
Temporary	139	158	297
Filled positions	1,023	175	1,198
Vacant positions	379	413	792

2. **Pursue other labor cost savings through collective bargaining negotiations.** Another means to reduce payroll expenses is through curtailment of working days. The new contract with the HGEA implements a furlough of up to 24 days in FY 2011, and the HSTA contract includes furloughs of 17 or 21 days depending on whether the employee is a 10-month or 12-month worker. While negotiations are still pending with other unions, the departments and agencies their members work for are held to the same level of savings that can be

expected from a comparable furlough. Overall payroll reductions including fringe benefits are estimated to be \$198.4 million from general funds.

3. **Align program requirements with appropriate means of financing.** We have identified additional programs and activities that could be and should be funded with revenue sources other than general funds. As a result, 22 positions and related program expenses are proposed to be funded by various federal and non-general fund sources. Expected general fund savings amount to \$15 million each year.
4. **Reduce operating costs, restructure programs, and preserve essential services of State government.** As revenues continue to decline, the State cannot stay on its current course and maintain the same level of services. Reductions in general funded programs will be achieved through: consolidating and streamlining operations, rolling back non-essential or recently added services, eliminating programs of low priority, and reducing levels of benefits. The major changes will be addressed by the affected departments and programs when they appear before you to discuss their budget requests.
5. **Maximize the use of federal funds.** Hawaii is receiving a substantial amount of federal assistance under the American Recovery and Renewal Act of 2009 (ARRA). A total authorization of \$943 million was included for the biennium in Act 162, SLH 2009, to provide additional operating funds for higher and lower education, unemployment insurance and workforce development, health and welfare, renewable energy and environmental management, housing, and transportation. Another \$19.8 million is requested in the Supplemental Budget to increase the federal ceiling for ARRA funds being received by the Housing Finance and Development Corporation. We continue to explore

and maximize the opportunities for additional federal grants under ARRA as well as through traditional federal programs.

6. **Continue the restructuring and refinancing of G.O. bond debt.** Debt restructuring has been an important tool of fiscal management as we seek to find market opportunities for reducing the debt service costs of the State's borrowing program. For FY 2011, a restructuring program will provide significant savings and result in lower debt service costs.

#### The Capital Improvement (CIP) Budget

For capital improvements, the current level of authorizations is substantial and is deemed adequate for the biennium. Requests for new funding and projects have been kept at a minimum to curtail borrowing costs. Departments have been instructed to accommodate their CIP needs through lapses and trade offs of existing capital improvement program appropriations.

The capital improvement plan for FY 2011 continues to focus on an expanded Major Repair and Maintenance program aimed at getting projects done quickly to address the repair and maintenance backlog and help with job creation. Priority is given to projects currently in progress or nearing completion and projects that improve energy efficiency or contribute to the development of clean energy alternatives for Hawaii. In the area of transportation, the modernization plans for airports and harbors continue to be high priorities.

In an effort to update and eliminate project authorizations that are no longer necessary, we have identified a total of \$70.2 million in existing CIP appropriations that are designated to lapse.

PROPOSALS TO ADDRESS THE BUDGET AND REVENUE SHORTFALL IN FY 2011

Under the prevailing economic and fiscal conditions, the revenue gap of \$1.23 billion cannot be closed by budget reductions alone. We must consider, in this legislative session, other options for generating the revenues needed for basic support of State programs and services. Thus, in addition to the spending reductions being proposed, we recommend the following actions to provide the State with additional resources at this critical time:

1. Refinance and restructure G.O. bond debt. Additional refunding and restructuring will reduce debt service by \$75.2 million in FY 2011.
2. Suspend distribution of revenues from the Transient Accommodations Tax (TAT) to the counties. TAT taxes are currently earmarked for several purposes: funding the operations and marketing programs of the Hawaii Tourism Authority and the Hawaii Convention Center, and giving financial aid to the counties. We recommend that distribution to the four counties be suspended until the State regains its fiscal balance.
3. Implement tax measures to reform and improve Hawaii's tax system. Legislative proposals will be submitted to make Hawaii's tax system more efficient and equitable, to tighten up tax rules, and to improve tax administration. The total tax package, including the TAT proposal, is an integral part of the General Fund Financial Plan and is estimated to generate \$178.3 million in additional revenues for the State in FY 2011.

Taken together, the proposed actions summarized above are expected to generate a significant stream of additional revenues for the State and will enable us to achieve a positive balance in the General Fund for FB 2009-11 and for each year of the planning period.

THE GENERAL FUND FINANCIAL PLAN

The Multi-Year General Fund Financial Plan is presented in Attachment 1.

The General Fund balance was initially determined to be at \$8.0 million on June 30, 2009. Subsequently in September 2009, an error was discovered in the recording of certain tax collections. This error resulted in an overstatement of general fund revenues of \$800,000 in FY 08 and \$44 million in FY 09. With these revisions, the FY 09 general fund balance was changed from a projected positive \$8.0 million to an actual minus \$36.8 million. This is a decrease of \$367.2 million from the previous year, reflective of the decline in revenues due to the global recession.

The General Fund Six-Year Financial Plan encompassing FY 2009-11 and the four subsequent years shows a positive balance in each fiscal year. Under the constraint of declining revenues, these positive balances were achieved from the following actions:

- Executive Branch budget reductions and adjustments as proposed;
- Legislative approval and authorization for Administration proposals that have revenue and expenditure impact; and
- Economic recovery and revenue improvements to take place in FY 11.

I would like to add that the State's disciplined approach in managing its budget has been favorably recognized by all three major credit rating agencies, even in these difficult times. In October 2009, Hawaii received a rating of "AA" from both Standard and Poor's Ratings Service and Fitch Ratings, and "Aa2" from Moody's Investor Service. These strong ratings reflect their assessment that Hawaii State government has consistently displayed prudence and discipline in its fiscal management and governance.

THE EXECUTIVE SUPPLEMENTAL BUDGET RECOMMENDATIONS

THE OPERATING BUDGET

All Means of Financing

For FY 11, total proposed adjustments to the operating budget amount to a net decrease of \$378.2 million, or 3.6%, from all means of financing, as shown below.

<u>Means of Financing</u>	<u>FY 11 Act 162/2009 Appropriation (\$)</u>	<u>FY 11 Proposed Adjustment (\$)</u>	<u>FY 11 Recommended Appropriation (\$)</u>
General Funds	5,267,648,691	(348,294,916)	4,919,353,775
Special Funds	2,504,362,703	(30,087,726)	2,474,274,977
Federal Funds	1,772,522,731	(18,230,466)	1,754,292,265
Private Contributions	433,067	.....	433,067
County Funds	674,179	.....	674,179
Trust Funds	67,648,676	(559,531)	67,089,145
Interdept. Transfers	193,297,512	(3,773,695)	189,523,817
Federal Stimulus Funds	263,661,986	26,407,961	290,069,947
Revolving Funds	385,019,552	(2,964,845)	382,054,707
Other Funds	<u>12,060,876</u>	<u>(714,605)</u>	<u>11,346,271</u>
Total	10,467,329,973	(378,217,823)	10,089,112,150

General Fund

For FY 11, total proposed general fund adjustments to the operating budget amount to a net decrease of \$348.3 million, or 6.6%, less than the current appropriation level. It should be noted that nearly three-quarters (\$253.4 million) of the decrease is due to reductions in payroll costs.

Decrease in Positions

The Supplemental Budget includes a significant decrease in the number of permanent positions and temporary positions:

	<u>Permanent</u>	<u>Temporary</u>	<u>Total</u>
Total adjustments	(1693)	(297)	(1990)

By means of financing:

General Funds	(1263)	(138)	(1401)
Special Funds	(102)	(27)	(129)
Federal Funds	(315)	(88)	(403)
Revolving Funds	(10)	(16)	(26)
Interdepartmental Transfers	(3)	(28)	(31)

The distribution by department is as following:

	<u>Permanent</u>	<u>Temporary</u>	<u>Total</u>
Accounting & General Services	(156)	(1)	(157)
Agriculture	(96)	(3)	(99)
Attorney General	(40)	(6)	(46)
Budget & Finance	(11)		(11)
Business, Econ Dev & Tourism	(36)	(14)	(50)
Commerce & Consumer Affairs	(3)		(3)
Defense	(25)	(3)	(28)
Education			
Education - Charter Schools			
Education - Libraries			
Governor		(4)	(4)
Hawaiian Home Lands	(3)		(3)
Health	(338)	(28)	(366)
Health - Hawaii Health Sys Corp			
Human Resources Development	(20)		(20)
Human Services	(522)	(17)	(539)
Labor & Industrial Relations	(127)	(118)	(245)
Land & Natural Resources	(61)	(21)	(82)
Lieutenant Governor			
Public Safety	(148)	(3)	(151)
Taxation	(33)	(74)	(107)
Transportation	(74)	(5)	(79)
University of Hawaii			

THE CAPITAL IMPROVEMENT (CIP) BUDGET

For **FY 10**, total proposed CIP adjustments amount to a decrease of \$30.4 million in general obligation bond funds, reducing the current general obligation bond appropriation level from \$678.2 million to \$647.8 million.

For **FY 11**, total proposed CIP adjustments amount to \$164.9 million, to be funded from the following sources:

<u>Means of Financing</u>	FY 11 <u>Act 162/2009 Appropriation</u> (\$)	FY 11 <u>Proposed Adjustment</u> (\$)	FY 11 <u>Recommended Appropriation</u> (\$)
General Funds	.....	.....	.....
Special Funds	92,986,000	3,000,000	95,986,000
G.O. Bonds	185,810,000	46,298,000	232,108,000
G.O. Reimbursable	.....	.....	.....
Revenue Bonds	502,557,000	25,170,000	527,727,000
Federal Funds	138,248,000	54,467,000	192,715,000
Private Contributions	3,100,000	.....	3,100,000
County Funds	2,000	.....	2,000
Interdept. Transfers	.....	.....	.....
Federal Stimulus Funds	.....	.....	.....
Revolving Funds	.....	.....	.....
Other Funds	<u>49,600,000</u>	<u>36,000,000</u>	<u>85,600,000</u>
<b>Total</b>	<b>972,303,000</b>	<b>164,935,000</b>	<b>1,137,238,000</b>

Summary details of the Executive Supplemental Budget are provided in the “Budget in Brief” (Attachment 2).

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 Hawaii Revised Statutes.

At the aggregate level that includes all branches of government, total proposed appropriations from the General Fund are within the expenditure ceilings for both FY 10 and FY 11.

For the Executive Branch, total proposed appropriations from the General Fund (which include the Executive Supplemental Budget for FB 2009-11 and other specific appropriation measures to be submitted) are also within the Executive Branch's appropriation ceiling in both FY 10 and FY 11.

A summary statement on the General Fund Expenditure Ceiling and Executive Branch Appropriation Ceiling is included in Attachment 3.

#### 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 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 in Attachment 4.

In closing, I want to thank you again for the opportunity to make this presentation. As always, we will work with you on an ongoing basis during the 2010 Session to address issues related to the Executive Supplemental Budget and the General Fund Financial Plan.

Attachments

MULTI-YEAR FINANCIAL SUMMARY  
 GENERAL FUND  
 FISCAL YEARS 09 - 15  
 (in millions of dollars)

	Actual * FY 09	Estimated FY 10	Estimated FY 11	Estimated FY 12	Estimated FY 13	Estimated FY 14	Estimated FY 15
<b>REVENUES:</b>							
Executive Branch:							
Tax Revenues	4,202.3	4,097.2	4,408.3	4,672.8	4,953.2	5,250.4	5,512.9
Nontax Revenues	770.0	459.6	484.2	493.8	503.4	506.0	509.2
Judicial Branch Revenues	35.7	35.2	35.9	36.7	37.4	38.2	39.1
Other	-	306.4	190.4	174.7	196.1	94.9	95.1
<b>TOTAL REVENUES</b>	<b>5,008.0</b>	<b>4,898.5</b>	<b>5,118.8</b>	<b>5,378.0</b>	<b>5,690.1</b>	<b>5,889.5</b>	<b>6,156.3</b>
<b>EXPENDITURES:</b>							
Executive Branch:							
Operating	5,230.7	5,144.2	4,919.4	5,379.3	5,495.0	5,605.9	5,702.3
CIP	12.5	-	-	-	-	-	-
Specific Appropriations	251.7	3.8	3.8	5.0	5.0	5.0	5.0
Other	-	(457.2)	(17.2)	13.6	84.1	30.1	42.6
Sub-total	5,494.9	4,690.8	4,905.9	5,397.9	5,584.1	5,641.0	5,749.9
Legislative Branch	34.0	34.0	34.0	34.0	34.0	34.0	34.0
Judicial Branch	150.4	139.0	139.0	139.0	139.0	139.0	139.0
OHA	3.1	2.5	2.5	2.5	2.5	2.5	2.5
Counties	0.6	-	-	-	-	-	-
Lapses	(307.8)	(65.0)	(65.0)	(65.0)	(65.0)	(65.0)	(65.0)
<b>TOTAL EXPENDITURES</b>	<b>5,375.2</b>	<b>4,801.3</b>	<b>5,016.4</b>	<b>5,508.3</b>	<b>5,694.6</b>	<b>5,751.5</b>	<b>5,860.3</b>
<b>REVENUES OVER EXPEND.</b>	<b>(367.2)</b>	<b>97.2</b>	<b>102.4</b>	<b>(130.3)</b>	<b>(4.5)</b>	<b>138.0</b>	<b>296.0</b>
<b>CARRY-OVER BALANCE (DEFICIT)</b>							
Beginning	330.4	(36.8)	60.3	162.7	32.4	27.8	165.8
Ending	(36.8)	60.3	162.7	32.4	27.8	165.8	461.8
<i>Emergency &amp; Budget Reserve Fund</i>	<i>60.4</i>	<i>57.6</i>	<i>65.1</i>	<i>72.6</i>	<i>80.2</i>	<i>87.7</i>	<i>95.2</i>

\* unaudited

**SUMMARY STATEMENT OF GENERAL FUND  
EXPENDITURE CEILING AND APPROPRIATIONS**

<u>Total State Personal Income (in \$ millions)</u>		<u>State Growth Rate</u>	
Calendar Year 2006	49,124	Fiscal Year 2010	6.14%
Calendar Year 2007	52,253	Fiscal Year 2011	3.35%
Calendar Year 2008	54,175		
Calendar Year 2009*	54,175		
Calendar Year 2010*	54,500		

\* As estimated by the Council on Revenues

All Branches of State Government

	<u>Expenditure Ceiling</u>	<u>General Fund Appropriations</u>	<u>Margin</u>
Fiscal Year 2009		5,670,493,435	
Fiscal Year 2010	6,793,347,647	5,315,882,017	1,477,465,630
Fiscal Year 2011**	7,020,876,175	5,069,887,474	1,950,988,701

\*\* Includes proposed revisions

Executive Branch

	<u>Appropriation Ceiling</u>	<u>General Fund Appropriations</u>	<u>Margin</u>
Fiscal Year 2009		5,482,361,094	
Fiscal Year 2010	5,818,846,579	5,160,239,139	658,607,440
Fiscal Year 2011		5,272,918,691	
Proposed revisions		<u>(348,294,916)</u>	
Total Fiscal Year 2011	5,333,070,220	4,924,623,775	408,446,445

## 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 2010-2011 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 2009-2010 and estimated for each fiscal year from fiscal year 2010-2011 to 2012-2013, is as follows:

<u>Fiscal Year</u>	<u>Net General Fund Revenues</u>	<u>Debt Limit</u>
2006-2007	5,122,620,268	
2007-2008	5,222,739,619	
2008-2009	5,034,987,956	
2009-2010	4,621,325,000	948,454,784
2010-2011	4,913,356,000	917,541,575
2011-2012	5,187,960,000	898,462,919
2012-2013	(not applicable)	907,896,195

For fiscal years, 2009-2010, 2010-2011, 2011-2012 and 2012-2013 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 2006-2007, 2007-2008 and 2008-2009 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, 2009, dated November 18, 2009. The net general fund revenues for fiscal years 2009-2010 to 2011-2012 are estimates, based on general fund revenue estimates made as of September 9, 2009 and September 30, 2009, 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 2010-2011 to 2028-2029, the total amount of principal and interest on outstanding general obligation bonds are as follows:

Fiscal Year	Gross			Excludable			Net Debt Service		
	Ending June 30	Principal Payable	Interest Payable	Debt Service Payable	Principal Payable	Interest Payable	Debt Service Payable	Principal Payable	Interest Payable
2010	172,650,000	233,384,831	406,034,831	7,972,469	3,213,619	11,186,088	164,677,531	230,171,212	394,848,743
2011	243,125,000	226,206,875	469,331,875	11,583,759	2,902,699	14,486,458	231,541,241	223,304,176	454,845,417
2012	338,755,000	212,173,873	550,928,873	9,393,412	2,435,138	11,828,550	329,361,588	209,738,735	539,100,323
2013	376,765,000	195,174,387	571,939,387	6,393,408	2,036,478	8,429,886	370,371,592	193,137,909	563,509,501
2014	392,405,000	177,533,199	569,938,199	5,765,774	1,853,218	7,618,992	386,639,226	175,679,981	562,319,207
2015	393,195,000	158,898,608	552,093,608	5,684,380	1,694,914	7,379,294	387,510,620	157,203,694	544,714,314
2016	364,140,000	139,461,161	503,601,161	4,392,997	1,540,729	5,933,726	359,747,003	137,920,432	497,667,435
2017	394,580,000	121,143,135	515,723,135	4,162,432	1,409,788	5,572,220	390,417,568	119,733,347	510,150,915
2018	339,970,000	102,938,575	442,908,575	3,111,048	1,274,682	4,385,730	336,858,952	101,663,893	438,522,845
2019	288,200,000	87,210,207	375,410,207	2,230,352	1,153,278	3,383,630	285,969,648	86,056,929	372,026,577
2020	219,850,000	74,670,523	294,520,523	2,339,328	1,044,279	3,383,607	217,510,672	73,626,244	291,136,916
2021	191,935,000	64,778,367	256,713,367	2,453,591	930,000	3,383,591	189,481,409	63,848,367	253,329,776
2022	203,960,000	55,100,520	259,060,520	2,572,569	808,089	3,380,658	201,387,431	54,292,431	255,679,862
2023	195,510,000	44,988,421	240,498,421	2,700,670	680,029	3,380,699	192,809,330	44,308,392	237,117,722
2024	196,480,000	35,450,594	231,930,594	2,835,234	545,738	3,380,972	193,644,766	34,904,856	228,549,622
2025	164,450,000	26,178,701	190,628,701	2,976,674	404,301	3,380,975	161,473,326	25,774,400	187,247,726
2026	148,775,000	18,589,524	167,364,524	3,124,957	255,885	3,380,842	145,650,043	18,333,639	163,983,682
2027	105,335,000	11,617,450	116,952,450	1,135,554	100,184	1,235,738	104,199,446	11,517,266	115,716,712
2028	79,745,000	6,316,413	86,061,413	893,484	43,869	937,353	78,851,516	6,272,544	85,124,060
2029	50,765,000	2,303,950	53,068,950	0		0	50,765,000	2,303,950	53,068,950

Additionally, the outstanding principal amount of bonds constituting instruments of indebtedness in which the State has incurred a contingent liability as a guarantor is \$193,500,000, 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, 2009, adjusted for (a) appropriations made in Acts 139 and 162, Session Laws of Hawaii 2009, to be expended in fiscal year 2010-2011 (b) lapses proposed in THE EXECUTIVE BUDGET SUPPLEMENTAL [Budget Period: 2009-2011] (referred to as the "Budget") is the total amount of authorized but unissued general obligation bonds amounting to \$2,071,702,362. The amount of general obligation bonds proposed in the Budget is \$46,298,000 (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 \$2,201,655,876.

(5) Proposed general obligation bond issuance. As reported in the Budget, as it applies to the fiscal period 2009-2010 to 2012-2013, the State proposed to issue \$312,000,000 in general obligation bonds during the remainder of fiscal year 2009-2010, \$275,000,000 in general obligation bonds semi annually during fiscal years 2010-2011, \$330,000,000 in general obligation bonds during the first half of fiscal year 2011-2012, and \$340,000,000 in general obligation bonds during the second half of fiscal year 2011-2012. \$330,000,000 in general obligation bonds during the first half of fiscal year 2012-2013, and \$340,000,000 in general obligation bonds during the second half of fiscal year 2012-2013. It is the practice of the State to issue twenty-year serial bonds with principal repayments beginning the fourth 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 except that principal repayments will begin in the fourth year.

(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 2010-2011, 2011-2012, and 2012-2013, is \$2,202,000,000. The total amount of \$2,202,000,000 which is proposed to be issued through fiscal year 2012-2013 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 \$2,201,655,876 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, 2013, 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 1.618 percent for the ten years from fiscal year 2009-2010 to fiscal year 2018-2019. For the purpose of this declaration, the assumption is made that 1 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 2009-2010, 2010-2011, 2011-2012 and 2012-2013 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>
2009-2010	5,169,470,000
2010-2011	5,885,420,000
2011-2012	6,376,070,000
2012-2013	6,796,245,000

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

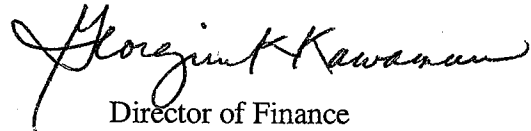
been established as heretofore provided by, can be excluded in determining the power of the State to issue general obligation bonds. As it is not possible to predict with a reasonable degree of certainty when a guaranty will change from a contingent liability to an actual liability, it is assumed in 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 5.25 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 &amp; Year of Principal &amp; Interest</u>
2nd half FY 2009-2010 \$308,880,000	948,454,784	597,849,399 (2013-2014)
1st half FY 2010-2011 \$272,250,000	917,541,575	612,142,524 (2013-2014)
2nd half FY 2010-2011 \$272,250,000	917,541,575	629,519,064 (2014-2015)
1st half FY 2011-2012 \$326,700,000	898,462,919	646,670,814 (2014-2015)
2nd half FY 2011-2012 \$336,600,000	898,462,919	664,342,314 (2014-2015)
1st half FY 2012-2013 \$326,700,000	907,896,195	683,868,810 (2016-2017)
2nd half FY 2012-2013 \$336,600,000	907,896,495	714,285,310 (2016-2017)

(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