ADMINISTRATIVE DIRECTIVE NO. 00-01

TO: All Department Heads

SUBJECT: Policy and Procedures on the Issuance of State Bonds

This administrative directive establishes policies and procedures for the orderly issuance of State bonds and defines the duties and responsibilities of the State Director of Finance with respect thereto. This directive supersedes Administrative Directive No. 90-12, Policy and Procedures on the Issuance of State Bonds, dated February 5, 1990.

Legal References:

Section 26-8, Hawaii Revised Statutes (HRS), provides that the Department of Budget and Finance shall administer the State debt. This responsibility is carried out through the Financial Administration Program (BUF 115) of the Department of Budget and Finance.

Section 39-56, HRS, provides that revenue bonds shall be signed by the Director of Finance.

Applicability:

This directive shall be applicable to all departments, boards, bureaus, commissions, development corporations and other agencies of the State having authority to issue State bonds, notes, and other instruments of indebtedness.

Definitions:

The term "bonds" shall have the same meaning as it is defined in Section 12, Article VII of the Hawaii Constitution, and shall include every type of bond described therein.

The term "revenue bonds" shall mean all bonds payable from, and secured by, the revenue or user taxes or any combination of both of an undertaking or loan program or any loan made thereunder for which such bonds are issued and as otherwise provided in Part III, Chapter 39, of the HRS.
Discussion:

Many capital improvement projects and programs in Hawaii are financed through the sale of State bonds. This means of financing provides a valuable resource which enables the State to undertake projects and programs which could not otherwise be funded.

In order to protect and preserve this valuable resource for use by future generations and to foster uniformity in the State's activities in the financial markets, it is appropriate and proper to establish formal guidelines for the issuance and sale of State bonds.

Under these guidelines, the Director of Finance shall be responsible for the selection of underwriters in the case of negotiated sales, and applicable financial advisors or consultants. The Director of Finance shall participate in the financial aspects of the bond issue, including pricing, determining interest rates, etc. The Director shall also participate in the specific structuring of the bond issue.

Policy:

To provide prudent management of the State debt and ensure the orderly issuance of State bonds for the financing of projects and programs, all departments, boards, bureaus, commissions, development corporations and other agencies of the State shall organize and coordinate all bond issuances with the Department of Budget and Finance.

Procedure:

Prior to obtaining the Governor's preliminary approval for any bond issue, all departments boards, bureaus, commissions, development corporations and other agencies of the State planning to issue State bonds shall file a letter of intent with the Department of Budget and Finance not less than 60 days prior to the issuance. The letter of intent shall be addressed to the Director of Finance and shall briefly set forth the plan of organization for the sale and confirm that all financial information required for the bond sale has been prepared as of the date of the letter of intent. The information required shall specifically include, but not be limited to the following:

1. the approximate principal amount of the proposed bond;
2. the type of bonds proposed to be issued, i.e., revenue bonds, special facility revenue bonds, special purpose revenue bonds, and so forth;
3. the proposed date of sale and proposed date of delivery of the bonds; and
4. the plan of organization for the sale:
a. a recommendation and justification for the method of sale, i.e., competitive or negotiated;

b. the name(s) of prior financial advisor(s) or financial consultant(s) used, if any;

c. the name(s) of prior investment banker(s) or underwriter(s) used, if any; and

d. the names of any other parties associated with prior financing(s);

5. the Act number(s) authorizing and the statutes governing the bond issue; and

6. confirmation that the issuing entity's financial and program information is current to within one quarter of the proposed bond issue date, such confirmation should specifically identify the following:

a. a financial plan for the expenditure of the bond proceeds for new money bonds;

b. audited financials or stubs current to within one quarter of the proposed issue date;

c. a six-year financial plan for the program, which includes the new debt service associated with the proposed bond issue, beginning with the current fiscal year;

d. compliance with any additional-bonds-test which may be in effect in accordance with authorizing documents; and

e. applicable information required for presentation to rating agencies and bond insurers, such as the minimum annual guaranty payment calculations.

Upon receipt of the letter of intent, the Director of Finance shall review the proposed financing and shall select the underwriters, financial advisors or consultants and such other participants as deemed necessary for the bond issue. The Director of Finance shall transmit a request to employ bond counsel to the Department of Attorney General. If necessary, the Director of Finance may request a meeting, prior to any determinations, with the department, board, bureau, commission, development corporation or other agency, regarding the financing and prospective underwriters, financial advisors and any other participant in the financing. The Director of Finance shall also approve all financial aspects of the issuance, including without limitation, at time of sale, the determination of the interest rate, purchase price and underwriter's spread.

The department, board, bureau, commission, development corporation or other agency shall be responsible for reporting to the Director of Finance any changes or deviations in the form or schedule of the financing.
Failure to proceed with the financing, as organized and scheduled, cancels the approval granted. In such an event, a new letter of intent must be filed with the Director of Finance.

Every filing with the Director of Finance must be delivered to the Department of Budget and Finance, Room 105, No. 1 Capitol District, 250 South Hotel Street, or mailed to the following address:

Director of Finance  
Department of Budget and Finance  
P. O. Box 150  
Honolulu, Hawaii 96810  

BENJAMIN CAYETANO