

TESTIMONY BY GEORGINA K. KAWAMURA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE SENATE COMMITTEE ON EDUCATION
ON
SENATE BILL NO. 2296

February 1, 2008

PROPOSING AMENDMENTS TO THE HAWAII CONSTITUTION RELATING TO THE
ISSUANCE OF SPECIAL PURPOSE REVENUE BONDS.

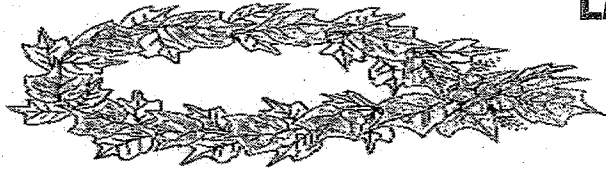
Senate Bill No. 2296 proposes to amend article VII, section 12, and article X, section 1, of the Constitution of the State of Hawaii to authorize the State to issue special purpose revenue bonds, and use the proceeds from those bonds, to assist nonprofit corporations supporting one or more charter schools, community development financial institutions benefiting one or more public charter schools, and charter schools.

We wish to point out that there may be federal tax implications in using tax-exempt Special Purpose Revenue Bonds (SPRB) to provide assistance to charter schools. Traditionally, SPRB tax-exempt financing is used to assist private entities such as private hospitals, industries, and utilities. Charter schools are statutorily considered to be "public schools" and fall under auspices of the State's Department of Education. More expensive, taxable revenue bonds may be necessary to provide financing for charter schools if tax-exempt financing is not permitted.

In addition, charter schools must be able to generate sufficient revenues in order to repay the debt service associated with a bond issue. Currently, charter schools are not

statutorily authorized to assess tuition. As such, it is uncertain as to what revenues would be used to repay the principal and interest on the bonds.

Furthermore, the issuance of SPRB tax-exempt financing by conduit entities (such as nonprofit organizations and community development financial institutions) does not eliminate the requirement that tax-exempt bond financing must be used to assist private entities, or the need for the charter schools to generate sufficient revenues to pay debt service.



'A'ole pau ka 'ike i ka hualau hio'okali

Connections Public Charter School

A Community, Business & Education Learning 'Ohana

Testimony in Support of SB 2296, 2494, and 3254
John Thatcher, Principal, Connections PCS

Senators Sakamoto, Tokuda and members of the Committee on Education:

I want to speak strongly in support of all legislation that will help our charter schools with one of our most difficult problems: facilities. Specifically, I'd like to ask for your support of SB 2296, SB 2494 and SB 3254. A coordinated, multi-pronged approach is needed to create long-term solutions. These bills provide hope for defining potential solution strategies and a vehicle for overseeing implementation. They also provide a means for addressing some of the "myths" associated with charter school facilities.

In a report titled Debunking the Real Estate Risk of Charter Schools the Ewing Marion Kauffman Foundation found that landlords and real estate lenders who are wary of dealing with charter schools may perceive the schools as much riskier clients than they actually are. The foundation found that of all charter schools that have ever opened in this country, 5.95% have closed in a way that impacted their landlords or real estate financiers. And, even when charter schools actually failed, the re-use rate of facilities is very high (96%). State education officials reported that landlords faced no loss in nearly all of these cases and were able to re-lease the facilities at equal or higher rates to the new tenants. Having a long-term facility solution was found to reduce the risk of charter schools failing. However, their survey sample (804 of 1,703) had only short-term leases. These schools had adequate spaces but did not have homes assured for the future.

Recognizing the importance of ensuring sound financing for charter schools, the U.S. Department of Education has established a "Credit Enhancement for Charter School Facilities Program" that channels funds, on a competitive basis, to other organizations to "credit enhance" charter school loans or leases. A key advantage of the program is that it uses federal money to leverage federal support with private money. Our school has benefited from this program. Our associated non-profit worked with the Raza Development Fund to secure a loan to purchase our facilities. The acquisition has provided our school with a sense of stability and enables our ability to realistically focus on long-term planning. It also provides a "case study" that can be used to help other charter schools develop strategies for solving their specific facilities-related problems. One of the defining characteristics of charter schools, in Hawaii and nationally, is that every school is different. Every charter school in Hawaii has a unique program with unique needs. Together we embrace the right of individual families to choose a school that they feel will best meet the needs of their children. And those children have a

constitutionally guaranteed right to attend a public school with the State supporting the physical facilities therefor.

Mahalo!