

TESTIMONY BY GEORGINA K. KAWAMURA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE SENATE COMMITTEE ON EDUCATION
ON
SENATE BILL NO. 3254

February 1, 2008

RELATING TO SPECIAL PURPOSE REVENUE BONDS.

Senate Bill No. 3254 proposes to amend Chapter 39A, Hawaii Revised Statutes, by adding a new part to authorize the issuance of special purpose revenue bonds to assist not-for profit organizations that support 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.

Personal Testimony

Testimony Presented Before the
Senate Committee on Education

January 30, 2008, 1:15 pm, Room 225

by
Donald B. Young, Acting Dean
College of Education
University of Hawai'i at Mānoa

SB 3254: Relating to Special Purpose Revenue Bonds

Chair Sakamoto, Vice Chair Tokuda, and Members of the Committee:

My name is Donald Young and I am the acting dean for the College of Education. I support the intent of SB 3254, which authorizes the issuance of special purpose revenue bonds to not-for-profit organizations that support charter schools.

The University encourages the committee to move this forward with a menu of options for consideration and discussion throughout this session.

Hawai'i's commitment to public school children should not be compromised by artificial arguments over whether or why charter school children deserve less funding support than regular public school children. However, this commitment does not mean that the vehicles for delivering a fair sense of equity needs to be the same. SB 3254 and the other bills listed below represent innovative and alternative strategies for meeting the State's obligations to all its public school children.

I would respectfully suggest that the committee move forward many of the concepts embodied in bills listed below, either through individual bills or as a number of alternative strategies within a single bill.

Other related charter school facilities bills that deserve examination include:

SB 2494 RELATING TO EDUCATION

Establishes the Hawai'i charter school facilities fund for funding the repair, maintenance, and other facilities needs of charter schools. Establishes a tax credit for certain individuals who make contributions to charter school repairs, maintenance, or development. Appropriates funds for the Hawai'i charter school facilities fund.

SB 2164 RELATING TO EDUCATION

Establishes the Hawai'i charter school facilities fund for funding the repair, maintenance, and other facilities needs of charter schools. Establishes a tax credit for certain individuals who make contributions to charter school repairs, maintenance, or development. Appropriates funds for the Hawai'i charter school facilities fund

SB 2296 PROPOSING AMENDMENTS TO THE HAWAII CONSTITUTION RELATING TO THE ISSUANCE OF SPECIAL PURPOSE REVENUE BONDS

Proposes a constitutional amendment to authorize the State to issue special purpose revenue 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.

SB 3186 RELATING TO CHARTER SCHOOLS

Allows charter schools to acquire facilities through lease purchase financing agreements.

Companion bills in the House of Representatives include:

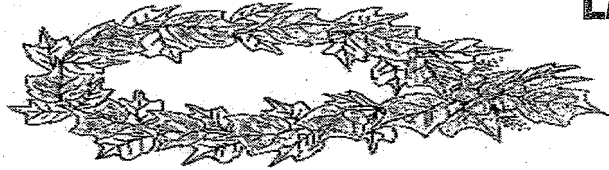
HB 2561 RELATING TO EDUCATION

Establishes the Hawai'i charter school facilities fund for funding the repair, maintenance, and other facilities needs of charter schools. Establishes a tax credit for certain individuals who make contributions to charter school repairs, maintenance, or development. Appropriates funds for the Hawai'i charter school facilities fund.

HB 2641 RELATING TO CHARTER SCHOOLS

Appropriates funds to charter schools for facilities. Gives charter schools first right to use underutilized or vacant state buildings.

Thank you for the opportunity to testify today.



'A'ole pau ka 'ike i ka hualau ho'okahi

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!