

TESTIMONY BY KALBERT K. YOUNG
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE HOUSE COMMITTEE ON FINANCE
ON
SENATE BILL NO. 119, S.D. 2, H.D. 1

April 1, 2011

RELATING TO PUBLIC BUILDINGS

Senate Bill No. 119, S.D. 2, H.D. 1, establishes a State Facility Renovation Partnerships Program to be administered by the Department of Accounting and General Services (DAGS) and it creates a State Facility Renovation Partnership special fund to be administered by DAGS. The special fund will receive moneys from the sale or lease of State facilities to be used to fund the operations of the State Facility Renovation Partnership Program.

The department recognizes the benefit of user fees to offset operational expenses and costs. However, as a matter of general policy, the Department of Budget and Finance expects the creation of any special fund would meet the requirements of Sections 37-52.3, Hawaii Revised Statutes. Special or revolving funds should: 1) reflect a clear nexus between the benefits sought and charges made upon the users or beneficiaries of the program; 2) provide an appropriate means of financing for the program or activity; and 3) demonstrate the capacity to be financially self-sustaining. In regards to Senate Bill No. 119, S.D. 2, H.D. 1, it is difficult to determine whether the State Facility Renovation Partnership special fund would be financially self-sustaining.

Further, the department would like to note that the sale of public buildings that were previously financed with general obligation bonds that are currently outstanding may trigger a "change of use" of the bond financed building, as the owner of the building for federal tax purposes will be a private entity. This may result in a pro-rated portion of the general obligation bonds outstanding to become taxable which will create a liability for the State. There may be options to address this issue by using a portion of the sales proceeds to pay off the outstanding bond debt associated with a building. As such, further discussions with bond counsel will be necessary to ensure compliance with federal tax requirements.

The strategy of selling public buildings and leasing them back is a fiscal practice that is used in other states and jurisdictions. There are long-term financial considerations that would be either beneficial or to the detriment of the State as landowner and the occupant of the building. Each transaction or building would pose different considerations and the necessary due diligence should be performed to ensure future State interests are preserved. The Department would work with DAGS on implementing or reviewing any transaction.

NEIL ABERCROMBIE
GOVERNOR



BRUCE A. COPPA
Comptroller

RYAN OKAHARA
Deputy Comptroller

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WRITTEN TESTIMONY
OF
BRUCE A. COPPA, COMPTROLLER
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
TO THE
HOUSE COMMITTEE
ON
FINANCE
ON
April 1, 2011

S.B. 119, S.D. 2, H.D. 1

RELATING TO PUBLIC FACILITIES

Chair Oshiro and members of the Committee, thank you for the opportunity to testify on S.B. 119, S.D. 2, H.D. 1.

The Department of Accounting and General Services (DAGS) supports S.B. 119, S.D. 2, H.D. 1, which tries to addresses the State's significant backlog of deferred facility maintenance and promote new construction projects by establishing public-private partnerships through the State Facility Renovation Partnership Program.

Thank you for the opportunity to testify on this matter.

Andres Albano, Jr. (B)
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TESTIMONY OF ANDRES ALBANO JR.

BEFORE THE HOUSE COMMITTEE ON
FINANCE
SENATE BILL 119 SD 2, HD 1
APRIL 1, 2011

Chair Marcus R. Oshiro, Vice Chair Marilyn B. Lee and Members of the
Committee:

As I have done before the Senate Committee on Public Safety,
Government Operations and Military Affairs, the Senate Committee on
Ways and Means and the House Committee on Water, Land & Ocean
Resources, I firmly support the passage of SB 119 SD2, HD1.

Mahalo for allowing me to provide testimony.

Aloha!

Andres Albano Jr.
Senior Vice President