

**LATE**

TESTIMONY BY KALBERT K. YOUNG  
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE  
STATE OF HAWAII  
TO THE SENATE COMMITTEES ON ECONOMIC DEVELOPMENT AND TECHNOLOGY  
AND WAYS AND MEANS  
ON  
HOUSE BILL NO. 2145, H.D. 2, PROPOSED S.D. 1

April 3, 2012

RELATING TO ECONOMIC DEVELOPMENT

Part I of House Bill No. 2145, Proposed SD1 establishes, as state policy, an intent to complete or facilitate completion of ten specific projects within the next ten years. The purpose of this delineation is to promote economic development in Hawaii. Parts II through X of House Bill No. 2145, Proposed SD1 will issue an additional \$500,000,000 in general obligation (G.O.) bonds to fund the repair and maintenance or capital renewal and deferred maintenance projects of various departments, the University of Hawaii, the Hawaii Health Systems Corporation, and the Judiciary. This measure will also streamline the procurement process by exempting contracts of less than \$1,000,000 from the procurement code; providing for exemptions from County permitting, licensing and certification requirements; making certain procurement provisions permanent; and requiring the Procurement Policy Board to create an expedited procurement process for contracts resulting from appropriations made pursuant to this measure.

With regards to Part I of the bill, The Administration is supportive of the legislative intent to promote economic development and these projects in particular. One of the Administration's policies is to spur economic development through government construction projects and many of the projects identified in this bill are also targeted as Administration objectives. I would point out that some of the critical components the Administration is considering in its review of the viability of

these projects are in the areas of financing methods, timing of financing opportunities, project incubation, planning lead-time, right-timing entitlement issues, and project duration. Of course, consultation and input from the responsible departments is essential on and a number of other projects that are on the horizon. We encourage the Committee to also engage in information gathering in these areas to better gauge the amount of timing and progress are required for each of these projects to come to fruition before the 2025 deadline.

With regards to Parts II through X, The Department of Budget and Finance supports the intent of this measure to provide funding for deferred maintenance and capital renewal projects to stimulate the construction industry. For the Committee's consideration, it should be noted that the issuance of \$500,000,000 in additional G.O. bonds will generate additional debt service payments beyond the amounts included in the Governor's FY 13 supplemental budget request. Hawaii Revised Statutes provides limits on the structure new debt and therefore, the Department of Budget and Finance considers debt issuance structures and long-term financial strategy with each transaction. Areas that are considered include debt service amounts, cash needs and planning horizons, duration of debt, timing of principal repayments, interest costs, etc. There are many factors to be considered with debt issuance. In consideration of the CIP appropriations and the current supplemental budget request, the Legislature should consider appropriating a sufficient amount of fiscal funds for debt service to meet the additional presumed debt.

For general planning purposes, the Administration currently assumes all G.O. bond debt to be issued for a duration of 20 years. Also, the Administration assumes that debt will be issued with as much as a 5-year delay of principal repayment. The coupon rate for new bonds is conservatively budgeted at an assumed coupon rate of 5.25%. Based on these criteria, the department advises that the Legislature should expect that for every \$100 million in G.O. bond debt appropriated, the

budget should accommodate annual debt service of approximately \$5,250,000 for years 1 through 4. However, for years 5 through 20, the annual debt service on that \$100 million will be approximately \$9,400,000.

More plainly, for \$500,000,000 in additional G.O. bond appropriation, the annual debt service for each year through year 4 will be \$26,250,000 which assumes interest-only payments. For years 5 through 20, the annual debt service will be approximately \$47,000,000 which will include principal and interest payments.



# UNIVERSITY OF HAWAI‘I SYSTEM

## Legislative Testimony

LATE

Testimony Presented Before the  
Senate Committees on  
Economic Development and Technology  
and  
Ways and Means

April 3, 2012 at 9:30 AM  
by  
M.R.C. Greenwood  
President, University of Hawai‘i

### HB 2145 HD2 Proposed SD1 – RELATING TO ECONOMIC DEVELOPMENT

Chairs Fukunaga and Ige, Vice Chairs Wakai and Kidani, and Members of the Senate Committees on Economic Development and Technology and Ways and Means:

Thank you for the opportunity to testify in support of this measure.

HB 2145 HD2 Proposed SD1, proposes the issuance and appropriation of general obligation bonds to address repair and maintenance, capital renewal, and the reduction of deferred maintenance for various State departments, including the University. HB 2145 HD2, Proposed SD1 also proposes changes to the State procurement processes.

We are grateful for considering such a measure to create jobs to restore our economy and rebuild our infrastructure. As you know, our needs are sizeable and a detailed priority list of renovation, capital renewal, and backlog of maintenance projects, as well as projects benefiting Mānoa Athletic Programs was provided to the Committee on Ways and Means in January 2012. Below is a summary of the information provided:

Campus	Type of Work	Total	Shovel Ready Total
University of Hawai‘i at Mānoa	Renovation, Capital Renewal, and Backlog	130,800,000	115,800,000
	Athletics CIP Projects	12,500,000	0
	<b>University of Hawai‘i at Mānoa Total</b>	<b>143,300,000</b>	<b>115,800,000</b>
University of Hawai‘i at Hilo	Renovation, Capital Renewal, and Backlog	36,531,000	20,250,000
	<b>University of Hawai‘i at Hilo Total</b>	<b>36,531,000</b>	<b>20,250,000</b>
<b>Community Colleges</b>			
Hawai‘i Community College	Capital Renewal and Backlog	9,242,000	2,195,000
Honolulu Community College	Capital Renewal and Backlog	17,763,000	4,906,000
Kapi‘olani Community College	Capital Renewal and Backlog	8,294,000	3,973,000
Kaua‘i Community College	Capital Renewal and Backlog	1,743,000	1,448,000
Leeward Community College	Capital Renewal and Backlog	17,556,000	4,654,000
Maui College	Capital Renewal and Backlog	7,966,000	6,036,000
Windward Community College	Capital Renewal and Backlog	4,132,000	1,940,000
	<b>Community College Total</b>	<b>66,696,000</b>	<b>25,152,000</b>
<b>Systemwide Total</b>		<b>246,527,000</b>	<b>161,202,000</b>

The total listing for high priority renovation, capital renewal, and reduction of backlogged maintenance projects is \$246.527 million, of which \$161.202 million are “shovel ready.”

Also, it is our preference that Part IV, Section 6, Items C, D, and E be consolidated into one appropriation for the University of Hawai'i System, as the Legislature has done historically when appropriating for such purposes in the Executive budgets. A lump sum appropriation provides the University with the administrative flexibility to distribute funds equitably based on the priority of projects that are shovel ready.

In addition, the University supports those provisions in this measure which would streamline the procurement process for the capital improvement projects authorized by this bill as provided in Part VII.

We realize that our needs are many, and that there are limited resources for other competing needs. HB 2145 HD2 Proposed SD1 has the potential to positively impact the physical environment at all of our campuses, which will benefit the entire University of Hawai'i community and the state.

Thank you for the opportunity to testify on this measure.

**LATE**

# HAWAII CONSTRUCTION ALLIANCE

## STATE CAPITAL IMPROVEMENT PROGRAM WILL FUND REPAIRS AND KICK-START THE CONSTRUCTION INDUSTRY'S RECOVERY

April 2, 2012

The Hawaii Construction Alliance is composed of the Operating Engineers, along with the Hawaii Laborers' Union, Local 368, Hawaii Masons' Union, Local #1 and Local #630, and Hawaii Regional Council of Carpenters (formerly the Hawaii Carpenters Union). The unions have a total of more than 15,000 members in the statewide alliance, which represents the four basic crafts of the construction industry: carpentry, heavy equipment, masonry and general labor.

We support the Legislature's move to fund needed repairs and maintenance work on our schools and other public buildings. This is the best way for the state to ensure that our facilities are in good shape and get our members back to work.

The construction industry has been hard-hit by the economic downturn, and we still have a lot of people out of work. In fact members of this alliance have recently reported that on a state wide average over 60% of their active membership is currently unemployed. Being unemployed is stressful and hard on our families. Our members want to work.

Now is the time to spend on projects that will have long-term benefits. The state can take advantage of low interest rates, our members can get back to work, and our public buildings and facilities will be repaired.

We urge you to support CIP funding. It's a win all the way around.

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April 3, 2012

Senator David Y. Ige, Chair  
Senator Michelle N. Kidani, Vice-Chair  
Senate Committee on Ways and Means

Senator Carol Fukunaga, Chair  
Senator Glenn Wakai, Vice-Chair  
Senate Committee on Economic Development and Technology

Chairs Ige and Fukunaga, Vice-Chairs Kidani and Wakai, and Members of the Committees:

**SUBJECT: HB2145 Proposed SD1 Relating to Economic Development**

My name is Dorvin D. Leis. I am the Owner of Dorvin D. Leis Company, Inc. and my company represents nearly 500 employees involved in Plumbing, Pipefitting, Sheet Metal and Fire Sprinkler Trades.

The Dorvin D. Leis Company, Inc. for which I speak submits the following comments on the proposed SD1 to HB2145.

We appreciate the efforts of this Legislature in the proposed SD1 to fund the repair, upgrade and construction of key projects in the state and believe that this funding will help to stimulate the economy and create much needed jobs for the people of Hawaii.

We are, however, concerned with the provision in this bill that increases the small purchase procurement threshold from \$250,000 to \$1,000,000, because small purchase procedures do not require the subcontractor and scope of work listing, and this raises the exposure of all subcontractors to the detrimental practice of bid shopping. We believe the current small purchase procurement threshold of \$250,000 is a more reasonable amount for small purchases because many of the projects that fall under \$250,000 are trade specific (such as air conditioning, roofing, and electrical work) and do not require more than 2 unrelated trades, therefore the absence of the sub-listing on these jobs does not pose a significant problem. A four-fold increase in the threshold, however, is problematic because we enter a dollar range in which we see bigger projects with multiple crafts qualifying for small purchase procurement with no sub-listing, and this is when the sub trades become targets of bid shopping. Bid shopping results in higher costs, longer delays during construction, and substandard workmanship and materials and does not reduce the costs to the agency and only serves to increase the profit of the general contractor, all at the expense of the reputable subcontractors.



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If it is the desire of the legislature to increase the small purchase threshold beyond \$250,000, it should be accompanied by a provision which requires HRS 103D-302(b) subcontractor listing and scope of work on any construction project above \$250,000.

Thank you for the opportunity to offer testimony.

Respectfully yours,

Dorvin D. Leis  
Owner  
Dorvin D. Leis Company, Inc.

Cc: Stephen T. Leis, President



**LATE**

**Senate Committee on Economic Development and Technology  
Conference Room 211 9:30 am April 3, 2012**

**RE: HB 2145 HD2 – Relating to Economic Development – In Support**

Aloha Chair Fukunaga, Vice Chair Wakai and Members of the Committee:

I am Rose Martinez,

I support the delineation of the key economic sectors of importance for economic diversification in Hawaii and the identification of key projects within those sectors that are important to the long-term growth and success of those industries.

With the ailing economy of Hawaii, we seek projects to rejuvenate our economy that would create jobs. Projects that has previously determined environmental review that is complete at the earliest possible point in the planning and decision making process so as to ensure that decisions impacting the community are made with best possible information available. This process would allow opportunity for experts and the community to resolve potential problems that may arise in the future..

Smart developments done with proper planning are necessary for our growth that will benefit the community and the future generations,

What is critical at this point in time is in the area of sustainability. One way State of Hawaii can be self sustained is by preserving our agricultural lands and to protect, advocate and advance the social, economic and educational interest of our diverse agricultural community,. HB 2145, HD2 clarifies legislative intent in State Policies regarding agriculture. Building agricultural infrastructure is a must, therefore, the State should focus on the need to rehabilitate and enhance irrigation infrastructure basic to the industry's viability that is missing.

The broad goal of this measure regarding establishing enough renewable energy production to meet the goals of Hawaii clean Energy initiative is empirical so long as the the legislature does not dictate specifics on the project

I believe the intent of this measure is to update and clarify what should be State Policy, therefore repair, upgrade and build state of the art harbors, airports, and other transportation projects that provide for the quick, reliable, and affordable transportation of people and goods; viable and sustainable agriculture; and building housing and other commercial facilities, including agricultural irrigation systems.

This change is consistent with the State's goal of increasing its' level of self sufficiency and sustainability.

I respectfully request your support of this measure Thank you for this opportunity to testify on this matter.