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TO THE SENATE
COMMITTEE ON WAYS AND MEANS

TWENTY-SEVENTH LEGISLATURE
Regular Session of 2014

Date: Friday, March 21, 2014
Time: 9:05 a.m.

TESTIMONY ON H.B. NO. 1741 – RELATING TO COUNTY INFRASTRUCTURE
CAPACITY BUILDING CONSTRUCTION FINANCING.

TO THE HONORABLE DAVID Y. IGE, CHAIR, AND MEMBERS OF THE COMMITTEE:

My name is Catherine Awakuni, and I am the Cable Television Administrator at the Department of Commerce and Consumer Affairs (the “**Department**”). The Department **supports** the general intent of H.B. No. 1741, but defers to the Department of Budget and Finance on the fiscal impacts the bill may have on existing State responsibilities and programs. If the Legislature deems this program to be a priority, the Department strongly recommends an amendment be made to specifically include telecommunications and broadband infrastructure construction in the language of the bill.

H.B. 1741 provides a supplemental financing incentive to encourage planned increases in infrastructure capacity to better support growth and mitigate impacts in targeted areas for development. Specifically, the bill creates a revolving fund to provide loans to counties, state agencies, and private developers for infrastructure construction that increases capacity to accommodate future growth. The Department supports this intent because it would likely also accelerate planning for and deployment of broadband and telecommunications infrastructure throughout the State.

The Department is one of three lead agencies supporting the Hawaii Broadband Initiative (HBI) to provide statewide access to affordable, high speed broadband services necessary to build a vibrant economy and to improve the quality of life for our residents. With the proposed amendment, H.B. 1741 will clearly provide opportunities to increase needed broadband and telecommunications infrastructure across the State. In so doing, it will help to advance efforts by the Department and other state agencies to implement the HBI, as well as objectives set out in the State Plan and by the Hawaii Broadband Task Force, formed by the Legislature in 2007.

The bill currently provides “regional sewer, water, and drainage systems and roads” as examples of the types of infrastructure facilities that may be funded. Telecommunications and broadband infrastructure also constitute critical infrastructure for planned development and growth, and should at a minimum be considered in, and may often be included with, the planning and construction of other basic infrastructure. Joint planning and development will promote the efficient use of government resources and minimize the disruption caused by construction.

The Department thus strongly recommends that telecommunications and broadband infrastructure be included in the examples listed to clearly allow funding for its construction under the bill. Specifically, the Department recommends that the language of the bill be revised at page 6, lines 13-14, and at page 7, lines 9-10, to include “telecommunications and broadband.”

Thank you for the opportunity to provide testimony and for your consideration of this proposed amendment.

DEPARTMENT OF PLANNING AND PERMITTING
CITY AND COUNTY OF HONOLULU

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DEPUTY DIRECTOR

March 21, 2014

The Honorable David Y. Ige, Chair
and Members of the Committee on Ways and Means
Hawaii State Senate
Hawaii State Capitol
415 South Beretania Street
Honolulu, Hawaii 96813

Dear Chair Ige and Committee Members:

SUBJECT: House Bill No. 1741
Relating to County Infrastructure Capacity
Building Construction Financing

The Department of Planning and Permitting (DPP) and the City's Transit-Oriented Development (TOD) Program **support** House Bill No. 1741. The Bill would establish a revolving fund to provide loans to counties, State agencies, or private developers for infrastructure improvements.

The City and County of Honolulu invests a significant amount each year in capital improvements to extend, maintain, and add capacity to Oahu's aging infrastructure. Although the primary responsibility for providing and expanding municipal infrastructure belongs to the counties and private developers, the proposed revolving loan fund would allow for greater capacity and more creative project financing. This is especially true for the infrastructure improvements needed for redevelopment of existing neighborhoods along the City's \$5.2 billion rail transit project. The City does not have the financing capacity to complete all the required infrastructure improvements in the near term. In order to help address Honolulu's severe shortage of affordable and middle-class housing, infrastructure capacity upgrades in complete streets, water, sewer, and broadband are needed to catalyze private development near transit. A revolving loan fund that takes advantage of State financing capacity to leverage outside revenue and private investment will be a critical component in accelerating transit-oriented development.

The DPP's TOD Program has developed six draft Neighborhood TOD Plans for the areas around 15 of the transit stations, and we are preparing to conduct the Airport and Aloha Stadium TOD plans for four stations (the remaining two station areas are under Hawaii Community Development Authority [HCDA] jurisdiction). Each plan is based on extensive community participation, meetings with landowners, business and community groups, and detailed community surveys. Thorough technical analysis underlies each plan, including market analysis and feasibility studies. All of this work is available at www.todhonolulu.org and has

The Honorable David Y. Ige, Chair
and Members of the Committee on Ways and Means
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been shared with State agencies; State staff has participated in development and review of these plans.

For the last year, we have focused on an implementation strategy to catalyze development opportunities, infrastructure investments, and neighborhood enhancements. The City's new TOD Sub-cabinet is a working group of infrastructure, transportation, environmental, housing, and planning directors who meet weekly to focus inter-agency efforts on expediting catalytic projects in the TOD areas. Three catalytic projects were selected for this year, along with multimodal access and safety improvements around the first half of the rail stations, which will open in 2017. We are also working with landowners and developers to generate interest in potential projects in other key areas. This effort has outlined a significant gap between the expanded infrastructure needed to catalyze private development and the financing capacity available over the next few years when the rail system starts operating.

In summary, the DPP and the TOD Program **support** House Bill No. 1741 to establish a revolving fund to provide loans to counties, State agencies, or private developers for infrastructure improvements. This would be especially helpful in getting more resources directed geographically to the transit corridor to catalyze private investment.

Thank you for the opportunity to testify.

Very truly yours,



George I. Atta, FAICP
Director

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HB1741-hbr

TESTIMONY BY KALBERT K. YOUNG
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE SENATE COMMITTEE ON WAYS AND MEANS
ON
HOUSE BILL NO. 1741

March 21, 2014

RELATING TO COUNTY INFRASTRUCTURE CAPACITY BUILDING
CONSTRUCTION FINANCING

House Bill No. 1741 establishes an Infrastructure Capacity Construction Loan Revolving Fund to provide loans to the counties, State agencies and private developers for infrastructure improvements. The bill designates the Department of Budget and Finance (B&F) to administer the loan program and requires B&F to adopt Administrative Rules and develop supporting procedure manuals.

The B&F has concerns with this bill because of the unknown costs associated with sewer, water, drainage and road projects. Such costs and expenses are critical factors in establishing this type of funding mechanism considering governance, debt responsibilities, on-going financial management, and facility controls. We recognize the importance of ensuring adequate infrastructure for our residents as the need for additional infrastructure capacity increases with population growth. However, State resources and credit are limited and, if obligated to meet these additional costs, it will be in direct competition with our current responsibilities for education, social safety-net, public safety, etc.

The counties have their own taxing and borrowing capabilities which can also be used to provide for county infrastructure. The State currently provides funds to the counties and private developers for infrastructure improvements for wastewater

and safe drinking water projects. Using state-funded debt to fund infrastructure to the benefit on county infrastructure or in the county-sphere of responsibility is an expense best situated at the county-level of government.

Private developers are currently required to make many infrastructure improvements as conditions of developing entitlements. The department recognizes that this bill could provide a resource to developers in that it creates an additional source to fund such improvements. However, when creating any loan fund that is seeded with public funds and which will directly benefit private entities, attention to governance and accountability of debt structure are important. This bill will create a very broad mechanism in a loan fund, but with very limited funding capabilities.

In addition, there will be added operating cost for additional staff to set-up, administer and coordinate the Infrastructure Capacity Construction Loan Revolving Fund. Among the operational issues that need to be addressed through Administrative Rules and operational policies and managed on a daily basis are the following:

- How funding will be allocated and awarded.
- Repayment options, collateral (security) requirements and default remedies.
- Monitoring of disbursements.
- Tracking of loan repayments.
- Managing repayment to private investors for their investments (plus interest accrued on investment) made into the fund.
- Drafting of all loan/program documentation.

Further, it should be pointed out that given the cost of infrastructure improvements, periodic infusion of general funds will probably be required to continue future loans. The bill requires the counties to make repayment of the loan principal and payment of simple interest, which is below prevailing market rate by an unspecified percentage, at the time of the loan. The loan repayments are made over several years, while the allocation of funds to the county must be disbursed upfront to cover construction costs. Thus, the revenues generated by the county repayment plan for deposit into the revolving fund will probably be relatively small and therefore insufficient to replenish the loan revolving fund to support future county infrastructure improvement projects.

Finally, the bill will appropriate an unspecified amount of general funds to capitalize the Capacity Construction Loan Revolving Fund which has not been accounted for in the Administration's general fund financial plan. In light of the recent Council of Revenues' tax projections, measures that substantially increase general fund expenditures, such as House Bill No. 1741, should be reconsidered based on their negative impact on general fund expenditures and the sustainability of general funded programs throughout the State.



**Testimony to the Senate Committee on Ways and Means
Friday, March 21, 2014 at 9:05 A.M.
State Capitol Conference Room 211**

**RE: HOUSE BILL 1741 RELATING TO COUNTY INFRASTRUCTURE CAPACITY
BUILDING CONSTRUCTION FINANCING**

Chair Ige, Vice Chair Kidani, and members of the committee:

The Chamber **supports** H.B. No. 1741, which proposes to establish a revolving fund to provide loans to counties, state agencies, or private developers for infrastructure improvements.

The Chamber is the largest business organization in Hawaii, representing more than 1,000 businesses. Approximately 80% of our members are small businesses with less than 20 employees. As the “Voice of Business” in Hawaii, the organization works on behalf of its members, which employ more than 200,000 individuals, to improve the state’s economic climate and to foster positive action on issues of common concern.

The deterioration of basic backbone infrastructure is a problem both nationally and locally. Keeping up with the need to increase infrastructure capacity to support future growth is essential for not only our economic growth but also to improve our quality of life.

A range of new and innovative approaches are being utilized across the nation to address alternative methods to finance government infrastructure needs. A Public-Private-Partnership (P3’s) is one example of how government was able to attract private investment to pay for the upfront cost of a government infrastructure project with the private investor being paid back over time for a particular project.

In 2012, Chicago created the Chicago Infrastructure Trust which essentially sought private investors to fund infrastructure improvements for the City. We understand that the Trust is undertaking a project to improve the energy performance of schools in Chicago with the investors being paid from the savings created. This is similar to what DAGS has done with the State buildings on Oahu.

While there appears to be a track record of individual projects or agencies that have been successful at funding infrastructure through private investors, there does not appear to be too many situations where one entity can “put the whole package together.” The Chicago Infrastructure Trust is the first attempt that we know of to approach infrastructure from a comprehensive standpoint.

We realize that there are still many questions that need to be addressed on how the proposed bill would be implemented such as:



Chamber of Commerce HAWAII

The Voice of Business

- Is there an appetite for private investors to invest in infrastructure capacity building in Hawaii?
- Who are some of the critical “players” that need to be at the table to insure a successful project in Hawaii?
- How would we select and prioritize the projects to be funded through this new method of financing?

The bill is the first step to start the discussion on how to shape public policy to allow for an innovated way to finance infrastructure capacity building in Hawaii. We look to the legislature to provide the “political will” to move the discussion forward to address a critical need in Hawaii.

Thank you for the opportunity to express our views on this matter.



Testimony of Cindy McMillan
The Pacific Resource Partnership

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

HB 1741 – Relating to County Infrastructure Capacity Building Construction
March 21, 2014
9:05 AM
Conference Room 211

Aloha Chair Ige, Vice Chair Kidani and Members of the Committee:

The Pacific Resource Partnership (PRP) is a labor-management consortium representing over 240 signatory contractors and the Hawaii Regional Council of Carpenters.

PRP **supports** HB 1741 – Relating to County Infrastructure Capacity Building Construction, which establishes a revolving fund to provide loans to counties, state agencies, or private developers for infrastructure improvements.

According to a new report from the American Society of Civil Engineers, Hawaii's roads, bridges, schools, parks, drinking water and wastewater facilities are in serious disrepair and are in need of about \$6 billion in upgrades over the next twenty years.

The infrastructure capacity construction loan revolving fund will assist counties, state agencies and private developers with infrastructure improvements that would increase the capacity of the infrastructure facilities. Although the primary responsibility for basic municipal infrastructure needs continues to rest with the counties, much of the work will not be done if state assistance is not provided.

We also support including telecommunications and broadband infrastructure construction in the bill.

Thank you for the opportunity to share our views and we humbly request your favorable consideration on HB 1741.

BIA-HAWAII

BUILDING INDUSTRY ASSOCIATION

THE VOICE OF THE CONSTRUCTION INDUSTRY

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Testimony to the Senate Committee on Ways and Means Friday, March 21, 2014

9:05 a.m.

State Capitol - Room 211

SUBJECT: H.B. 1741, County Infrastructure Capacity Building Construction Financing

Dear Chair Luke, Vice-Chairs Nishimoto and Johansson, and members of the Committee:

My name is Gladys Marrone, Government Relations Director for the Building Industry Association of Hawaii (BIA-Hawaii), the Voice of the Construction Industry. We promote our members through advocacy and education, and provide community outreach programs to enhance the quality of life for the people of Hawaii. BIA-Hawaii is a not-for-profit professional trade organization chartered in 1955, and affiliated with the National Association of Home Builders.

BIA-Hawaii **strongly supports** H.B. 1741, which would establish a revolving fund to provide loans to counties, state agencies, or private developers for infrastructure improvements. This bill initially began as a means to increase the capacity of infrastructure facilities, including regional sewer, water, drainage systems, and roads to accommodate future growth, and not solely benefit one particular project. However, we support a **proposed amendment** by the Department of Commerce and Consumer Affairs and the Office of Information Management and Technology to include "telecommunications and broadband" as infrastructure facilities.

The goal of H.B. 1741 is to provide an alternative means of funding for infrastructure construction. This fund would be allowed to receive moneys from legislative appropriations, federal grants and subsidies to the State or counties, private investor contributions, and voluntary contributions.

BIA-Hawaii has been working with the Department of Budget and Finance, the Department of Commerce and Consumer Affairs, and has reached out to the Office of Information Management and Technology. We respectfully ask this Committee to continue to move this bill forward so the meaningful discussions that have evolved from this legislation can continue.

Infrastructure is one of the biggest issues that governments need to address in their public policies, though the importance that infrastructure plays in people's everyday lives is often taken for granted. Infrastructure investment in the development of roads, sewers, drainage, communications, IT, schools, ports, and hospitals is important to both economic development and overall quality of life. Failure to invest means a failure to sustain and develop our State's social and economic wellbeing. But improving infrastructure is costly.

In a report by the Hawaii Institute of Public Affairs on the State of Physical Infrastructure in Hawaii, there is \$14.3 billion in capital improvement projects

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needed over the next six years throughout the state and counties. In Phase II of this report, preliminary details indicate that over a 20-year period beginning in 2014, the total costs of major and long term infrastructure projects is \$17.4 billion, with 53% required on Oahu. Furthermore, this undertaking would create over 195,000 jobs, \$1.6 billion in state tax revenues, \$8.7 billion infused into household incomes, and \$30 billion generated in our statewide economy.

Additionally, the City's \$5 billion rail project would benefit from improved infrastructure in and around the transit corridor in order to accommodate higher densities, thus protecting our opens spaces and agricultural areas.

The costs of these infrastructure improvements cannot be undertaken by our State and counties alone. Allowing for outside revenue and investors to invest in improvements to our infrastructure will help accommodate the anticipated population growth, Statewide, as mandated by our State Constitution. H.B. 1741 will also help improve our quality of life.

There may still be questions that need to be addressed on how H.B. 1741 would be implemented, such as:

- Is there an appetite for private investors to invest in infrastructure capacity building in Hawaii?
- Who are some of the critical "players" that need to be at the table to insure a successful project in Hawaii?
- How would we select and prioritize the projects to be funded through this new method of financing?

H.B. 1741 is the first step to start the discussion on how to shape public policy to allow for an innovative way to finance all types of infrastructure capacity building in Hawaii. We look to the legislature to provide the "political will" to move the discussion forward to address a critical need in Hawaii.

We appreciate the opportunity to express our **strong support** for H.B. 1741.