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OFFICE OF THE PUBLIC DEFENDER

**STATE OF HAWAII
DEPARTMENT OF BUDGET AND FINANCE**

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ADMINISTRATIVE AND RESEARCH OFFICE
BUDGET, PROGRAM PLANNING AND
MANAGEMENT DIVISION
FINANCIAL ADMINISTRATION DIVISION
OFFICE OF FEDERAL AWARDS MANAGEMENT (OFAM)

**TESTIMONY BY WESLEY K. MACHIDA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE HOUSE COMMITTEE ON FINANCE
ON
HOUSE BILL NO. 2027**

February 26, 2016
1:00 p.m.

**RELATING TO STATEWIDE INFRASTRUCTURE CAPACITY BUILDING
CONSTRUCTION FINANCING**

House Bill No. 2027 establishes the Infrastructure Capacity Construction Loan Revolving Fund, within the State Treasury, to be administered by the Department of Accounting and General Services (DAGS). In addition, the bill makes an unspecified appropriation in general funds for FY 17 to be deposited into the revolving fund to be expended by DAGS for the purpose of this measure.

Revenues of the Infrastructure Capacity Construction Loan Revolving Fund include: funds received by DAGS from the counties from the repayment of loans and interest from the various assessments or fees from special improvement districts, improvement districts, tax increment financing districts, community facilities districts, and other areas where property value increases are captured over period of time for the purposes of infrastructure financing; appropriations by the Legislature; federal grants and subsidies to the State or counties; private investor contributions; and voluntary contributions.

Revenues from the fund may be expended by DAGS to make loans to the counties, State agencies, or private developers for the costs of infrastructure improvements that would increase the capacity of the infrastructure facilities, including regional sewer, water, and drainage systems, roads, and telecommunications and broadband. In addition, revenues from the fund may be used to pay costs associated with the implementation, administration, and coordination of the fund, and to repay

private investors for their investment made into the fund to finance infrastructure improvements.

The Department of Budget and Finance, as a matter of general policy, does not support the creation of any revolving fund which does not meet the requirements of Section 37-52.4 of the HRS. Revolving funds should: 1) serve a need as demonstrated by the purpose, scope of work and an explanation why the program cannot be implemented successfully under the general fund appropriation process; 2) reflect a clear nexus between the benefits sought and charges made upon the users or beneficiaries or a clear link between the program and the sources of revenue; 3) provide an appropriate means of financing for the program or activity; and 4) demonstrate the capacity to be financially self-sustaining. In regards to House Bill No. 2027, it is difficult to determine whether the proposed source of revenues will be self-sustaining. In addition, the department is concerned about the use of scarce State resources to fund infrastructure improvements such as sewer, water, and drainage systems that normally are financed by the counties through their own taxing and borrowing authorities.

DEPARTMENT OF PLANNING AND PERMITTING
CITY AND COUNTY OF HONOLULU

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GEORGE I. ATTA, FAICP
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February 26, 2016

The Honorable Sylvia Luke, Chair
and Members of the Committee on Finance
Hawaii House of Representatives
Hawaii State Capitol
415 South Beretania Street
Honolulu, Hawaii 96813

Dear Chair Luke and Committee Members:

Subject: House Bill No. 2027
Relating to Statewide Infrastructure Capacity
Building Construction Financing

The Department of Planning and Permitting (DPP) **supports** House Bill No. 2027, which would create a new fund to support the upgrade of regional infrastructure projects. We have minor suggested modifications as described below. The Infrastructure Capacity Construction Loan Revolving Fund would be available to counties, State agencies and developers.

Under the City's Transit-Oriented Development (TOD) initiative, the DPP has long believed that State participation is essential to increasing regional capacity of major infrastructure systems.

Although we are not taking a position on the appropriateness of the Department of Accounting and General Services (DAGS) as the administering agency of the program, we do want to note that we enjoy a cordial, collaborative relationship with its staff as we develop plans and projects of mutual interest, most notably our TOD neighborhood plans and projects.

One concern is that the fund would be available to private developers. While we recognize that developers play a vital role in upgrading infrastructure capacities, we suggest that the loan program be limited to government agency applicants, or require that infrastructure investment in private development be co-sponsored or endorsed by a county. This will ensure that funding is consistent with the counties' respective priorities in terms of what types of projects are funded, and the timing and location of the specific improvements. Funds would be expended under a coherent, regional perspective, rather than on an ad hoc, reactive basis.

The Honorable Sylvia Luke, Chair
and Members of the Committee on Finance
Hawaii House of Representatives
Hawaii State Capitol
House Bill No. 2027
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We are currently working with several State agencies on the potential for accelerating infrastructure in districts like Iwilei/Kapalama, and this might require proportionate investments or contributions from large private and public landowners. We therefore suggest that the Bill be amended to allow the fund to be used for any State share of contributions to such an infrastructure district.

Since 2009, we have submitted bills similar to House Bill No. 2027. We understand that other similar bills are still pending. We believe it is time to adopt a version so that increased infrastructure capacity is realized sooner, rather than later. In a few short years, we will have a rail system in operation. The real estate market will want to respond to this incentive, and we need to be ready with the prerequisite water, sewer, drainage and other improvements to bolster our economy and realize community desires, such as increased affordable housing.

Please adopt House Bill No. 2027 with the minor requested amendments.

Thank you for the opportunity to testify.

Very truly yours,



George I. Atta, FAICP
Director



February 24, 2016

Representative Sylvia Luke, Chair
Representative Scott Y. Nishimoto, Vice Chair
House Committee on Finance

Testimony in Strong Support of HB 2027 Relating to Statewide Infrastructure Capacity Building Construction Financing. (Establishes the Infrastructure Capacity Construction Loan Revolving Fund to provide loans to counties, state agencies, or private developers for infrastructure improvements. Appropriates funds.)

FIN Hearing: Friday, February 26, 2016, 1:00 p.m., Conference Room 308

The Land Use Research Foundation of Hawaii (LURF) is a private, non-profit research and trade association whose members include major Hawaii landowners, developers and a utility company. LURF's mission is to advocate for reasonable, rational and equitable land use planning, legislation and regulations that encourage well-planned economic growth and development, while safeguarding Hawaii's significant natural and cultural resources, and public health and safety.

LURF **strongly supports HB 2027**, which proposes to establish the Infrastructure Capacity Construction Loan Revolving Fund to provide loans to counties, state agencies, or private developers for infrastructure improvements; and appropriates funds.

HB 2027. The purpose of this measure is to create an infrastructure capacity construction loan revolving fund to provide loans to the counties, state agencies, and private developers for infrastructure improvements. Furthermore, the intent of this bill is to allow for the proposed loans to be repaid by the use of innovative financing techniques, such as tax increment financing, community improvement districts, or community facilities districts.

LURF's Position. The counties and some state agencies have aging and limited infrastructure that have been neglected over time and now require a significant capital improvement investment. The 2013 State Report Card on Infrastructure, prepared by the American Society of Consulting Engineers, provided an assessment of Hawaii's infrastructure, concluding that major funding is needed to repair, reconstruct and maintain Hawaii's aging infrastructure.

The lack of adequate infrastructure is a severe constraint to the future growth of communities statewide. The development of regional infrastructure improvements, in accordance with an orderly and predictable infrastructure plan, will serve to accommodate population growth in areas that are suitable for development. Creating an infrastructure capacity construction loan revolving fund to provide loans to the counties, state agencies, and private developers will increase the capacity to build regional infrastructure improvements, including regional sewer, water, drainage, roadways, and telecommunications and broadband, and will support the development of necessary public services, as well as housing and mixed-use transit-oriented developments.

For the reasons set forth above, LURF is **in strong support of HB 2027**, and respectfully urges your favorable consideration of this bill.

Thank you for the opportunity to present testimony regarding this measure.



Chamber of Commerce HAWAII

The Voice of Business

**Testimony to the House Committee on Finance
Friday, February 26, 2016 at 1:00 P.M.
Conference Room 308, State Capitol**

**RE: HOUSE BILL 2027 RELATING TO STATEWIDE INFRASTRUCTURE
CAPACITY BUILDING CONSTRUCTION FINANCING**

Chair Luke, Vice Chair Nishimoto, and Members of the Committee:

The Chamber of Commerce Hawaii ("The Chamber") **strongly supports** HB 2027, which establishes the Infrastructure Capacity Construction Loan Revolving Fund to provide loans to counties, state agencies, or private developers for infrastructure improvements. Appropriates funds.

The Chamber is Hawaii's leading statewide business advocacy organization, representing about 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 members and the entire business community to improve the state's economic climate and to foster positive action on issues of common concern.

The goal of H.B. 2027 is to provide an alternative means of funding for infrastructure construction. Similar in intent to the Chicago Infrastructure Trust created by 2012, H.B. 2027 would be structured to receive moneys from a variety of sources, being careful not to jeopardize federal funding and grants to several State agencies. 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.

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.

The Report on the State of Physical Infrastructure in Hawaii indicated that there is \$14.3 billion in capital improvement projects 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.



Chamber of Commerce HAWAII

The Voice of Business

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 open spaces and agricultural areas.

The Building Industry Association of Hawaii and the Chamber of Commerce of Hawaii convened a conference (Houseless in Honolulu) in November of 2015 to raise awareness of one of Hawaii's most pressing issues - home affordability. With the median home price in the Islands now \$730,000, the repercussions are having a major impact on Honolulu's economy.

Without a solution to the State's shortage of residences, the number will soon surpass a million dollars. Every uptick in prices has increasing economic impact. Housing at all price points is desperately needed if we are to maintain the State's economic equilibrium. If potential employees cannot find affordable homes they will choose not to move to Hawaii and current residents affected by stratospheric home prices will leave. Employers across all spectrum of enterprises are already feeling the pinch. Mid-level employees are especially hard hit. Educators, medical professionals, and small businesses are especially hard hit.

The Department of Business, Economic Development and Tourism forecasted demand for additional housing units by county is 25,847 units for Honolulu, 19,610 for Hawaii, 13,949 for Maui, and 5,287 for Kauai during the 2015-2025 period (DBEDT Report—Measuring Housing Demand in Hawaii, 2015-2025).

We believe that in order to address the current "Housing Crisis," there needs to be a shift in the focus of how government views housing development and move from our current "Regulatory" stance to a more "Production Oriented" stance. For example, this shift would have the City and County of Honolulu adopt a goal of approving an average of 2,500 new residential units each year over the next 10 year period to address the projected 25,847 unit demand.

The most significant barrier to increasing the supply of housing at all price points is the lack of infrastructure capacity. 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. 2027 will also help improve our quality of life.

We appreciate the opportunity to express our strong support for H.B. 2027.

From: mailinglist@capitol.hawaii.gov
Sent: Wednesday, February 24, 2016 4:31 PM
To: FINTestimony
Cc: stefsakamoto@gmail.com
Subject: *Submitted testimony for HB2027 on Feb 26, 2016 13:00PM*

HB2027

Submitted on: 2/24/2016

Testimony for FIN on Feb 26, 2016 13:00PM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Gladys Quinto Marrone	BIA-Hawaii	Support	No

Comments:

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

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From: mailinglist@capitol.hawaii.gov
Sent: Thursday, February 25, 2016 3:33 PM
To: FINTestimony
Cc: tony@rmasalesco.com
Subject: Submitted testimony for HB2027 on Feb 26, 2016 13:00PM

HB2027

Submitted on: 2/25/2016

Testimony for FIN on Feb 26, 2016 13:00PM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Anthony B. Borge	Individual	Support	No

Comments: The infrastructure fund is needed to provide for the basic foundation to enable the physical and economical growth of communities. Sewer, water, utility lines are the "seeds" that will produce the economic growth via the outcome of communities, population base and additional tax revenues. Thank you.

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

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