

DAVID Y. IGE  
GOVERNOR



WESLEY K. MACHIDA  
DIRECTOR

LAUREL A. JOHNSTON  
DEPUTY DIRECTOR

EMPLOYEES' RETIREMENT SYSTEM  
HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND  
OFFICE OF THE PUBLIC DEFENDER

**STATE OF HAWAII**  
**DEPARTMENT OF BUDGET AND FINANCE**  
P.O. BOX 150  
HONOLULU, HAWAII 96810-0150

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

**WRITTEN ONLY**  
TESTIMONY BY WESLEY K. MACHIDA  
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE  
TO THE SENATE COMMITTEE ON WAYS AND MEANS  
ON  
HOUSE BILL NO. 628

**March 22, 2017**  
**9:30 a.m.**  
**Room 211**

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

House Bill (H.B.) No. 628 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 18 and FY 19 to be deposited into the revolving fund to be expended by DAGS for the purpose of this measure.

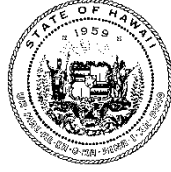
Revenues of the Infrastructure Capacity Construction Loan Revolving Fund include: funds received by DAGS from the counties from the repayment of loans and interest from the various assessments or fees from special improvement districts, improvement districts, tax increment financing districts, community facilities districts, and other areas where property value increases are captured over periods 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 H.B. No. 628, 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.

Thank you for your consideration of our comments.

DAVID Y. IGE  
GOVERNOR



RODERICK K. BECKER  
Comptroller

AUDREY HIDANO  
Deputy Comptroller

**STATE OF HAWAII**  
**DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES**

P.O. BOX 119, HONOLULU, HAWAII 96810-0119

TESTIMONY OF  
RODERICK K. BECKER, COMPTROLLER  
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES  
TO THE  
SENATE COMMITTEE ON WAYS AND MEANS  
ON  
WEDNESDAY, MARCH 22, 2017  
9:30 A.M.  
CONFERENCE ROOM 211

H.B. 628

RELATING TO STATEWIDE INFRASTRUCTURE CAPACITY BUILDING  
CONSTRUCTION FINANCING.

Chair Tokuda, Vice Chair Dela Cruz, and members of the Committee, thank you for the opportunity to submit written comments on H.B. 628.

The Department of Accounting and General Services (DAGS) has concerns with its proposed role under the measure, and offers the following comments for the committee's consideration.

The measure would essentially require DAGS to undertake the functions of a loan company or a bank. DAGS does not have the requisite knowledge, qualified personnel, and infrastructure to meet those requirements, nor does its existing operations and systems resemble the operating model proposed in the measure. DAGS would therefore need qualified staff and systems, which at a minimum, would include:

1. Loan accounting system that will calculate principle and interest payments, create payment coupons/invoices, monthly/annual statements, delinquency reporting and notices.
2. Personnel that can underwrite loans and prepare loan documentation for approval.

3. Personnel that can prepare approval requirements.
4. Personnel that can establish loan and deposit interest rates.
5. Personnel that can service loans after approved that would include loan disbursements and payment collection.
6. Personnel that can approve loans and set approval limits.
7. Personnel that can handle delinquency resolution, including work out agreements and payment plans.
8. Application to handle investor funds to calculate interest due, 1099I reporting requirements, monthly/annual statements, deposit processing, and forms to document receipt of funds and terms of deposit (including interest payment, withdrawal/return of principle provisions, etc.).
9. Administrator that is qualified to be accountable for these activities.

Because banking and lending activities are heavily regulated on the state and federal levels, it is imperative to have qualified personnel, and the most current financial applications and best practices, to minimize the State's exposure to regulatory violations.

We also note that the State and counties already borrow money through the issuance of bonds.

Thank you for the opportunity to submit testimony on this matter.

DAVID Y. IGE  
GOVERNOR OF HAWAII



**STATE OF HAWAII  
DEPARTMENT OF LAND AND NATURAL RESOURCES**

POST OFFICE BOX 621  
HONOLULU, HAWAII 96809

**Testimony of  
SUZANNE D. CASE  
Chairperson**

**Before the Senate Committee on  
WAYS AND MEANS**

**Wednesday, March 22, 2017  
9:30 A.M.  
State Capitol, Conference Room 211**

**In consideration of  
HOUSE BILL 628  
RELATING TO STATEWIDE INFRASTRUCTURE CAPACITY BUILDING  
CONSTRUCTION FINANCING**

House Bill 628 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 an unspecified amount of funds. **The Department of Land and Natural Resources (Department) supports SECTION 1.(1) of this bill provided its passage does not replace or adversely impact priorities indicated in the Executive Budget request, as it could assist government agencies and private developers by providing an economic means to bring their facilities up to current safety standards.**

The Department oversees the State's Dam and Reservoir Safety Program, which regulates the safe design, construction, and operation of dams and reservoirs. Dams and reservoirs provide valuable functions for the community and environment including water supply, irrigation, flood control, recreation, hydroelectric power, debris and sediment control, fire protection, wildlife habitat, waste management and aid in groundwater recharge.

The Department currently regulates 132 dams in the state of which the majority are classified as having a high hazard potential whereby their failure is anticipated to be a threat to the downstream population. Some of these irrigation systems and reservoirs may be considered to be infeasible to be replaced and if removed, their benefits would be lost forever.

Thank you for the opportunity to comment on this measure.

**SUZANNE D. CASE**  
CHAIRPERSON  
BOARD OF LAND AND NATURAL RESOURCES  
COMMISSION ON WATER RESOURCE MANAGEMENT

**KEKOA KALUHIWA**  
FIRST DEPUTY

**JEFFERY T. PEARSON, P.E.**  
DEPUTY DIRECTOR - WATER

AQUATIC RESOURCES  
BOATING AND OCEAN RECREATION  
BUREAU OF CONVEYANCES  
COMMISSION ON WATER RESOURCE MANAGEMENT  
CONSERVATION AND COASTAL LANDS  
CONSERVATION AND RESOURCES ENFORCEMENT  
ENGINEERING  
FORESTRY AND WILDLIFE  
HISTORIC PRESERVATION  
KAHOOLAWE ISLAND RESERVE COMMISSION  
LAND  
STATE PARKS

## BOARD OF WATER SUPPLY

CITY AND COUNTY OF HONOLULU  
630 SOUTH BERETANIA STREET  
HONOLULU, HI 96843  
www.boardofwatersupply.com




March 22, 2017

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ERNEST Y. W. LAU, P.E.  
Manager and Chief Engineer

ELLEN E. KITAMURA, P.E.  
Deputy Manager and Chief Engineer 

The Honorable Jill N. Tokuda, Chair  
and Members  
Committee on Ways and Means  
State Senate  
Hawaii State Capitol, Room 207  
Honolulu, Hawaii 96813

Dear Chair Tokuda and Members:

Subject: House Bill 628 Relating to Statewide Infrastructure Capacity Building  
Construction Financing

The Board of Water Supply (BWS) supports House Bill 628. This measure establishes the Infrastructure Capacity Construction Loan Revolving Fund to provide loans to counties, state agencies, or private developers for infrastructure improvements.

This state program is similar to the federal Environmental Protection Agency (EPA) State Revolving Fund program administered through the state Department of Health. Generally, BWS supports revolving loan programs that are available to county agencies that fund infrastructure improvements that increase the capacity of water infrastructure facilities.

House Bill 628 will allow the BWS to utilize the proceeds of the loan revolving funds as an additional option to finance waterworks projects. The savings realized from lower interest rates will ultimately help keep water rates affordable for BWS customers. Additionally, with the uncertainty of future funding for the EPA, the importance of a state funded program becomes even more significant.

Thank you for your consideration of our testimony on House Bill 628.

Very truly yours,



ERNEST Y.W. LAU, P.E.  
Manager and Chief Engineer



**Testimony to the Senate Committee on Ways and Means  
Wednesday, March 22, 2017 at 9:30 A.M.  
Conference Room 211, State Capitol**

**RE: HOUSE BILL 628 RELATING TO STATEWIDE INFRASTRUCTURE  
CAPACITY BUILDING CONSTRUCTION FINANCING**

Chair Tokuda, Vice Chair Dela Cruz, and Members of the Committee:

The Chamber of Commerce Hawaii ("The Chamber") **supports** HB 628, which establishes the Infrastructure Capacity Construction Loan Revolving Fund to provide loans to counties, state agencies, or private developers for infrastructure improvements.

The Chamber is Hawaii's leading statewide business advocacy organization, representing about 1,600+ 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.

One of the goals of H.B. 628 is to provide an alternative means of funding for infrastructure construction. Similar in intent to the Chicago Infrastructure Trust created by 2012, H.B. 628 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.



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 the first “*Houseless in Honolulu*” in November of 2015 to raise awareness of one of Hawaii’s most pressing issues - home affordability. Then again in November of 2016 we convened our second event, “*Still Houseless in Honolulu.*” The bottom line is we need to build our way out of this crisis by increasing the supply of housing at all price points. 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. This bill will also help improve our quality of life.

We appreciate the opportunity to express our support for this bill.





AMERICAN COUNCIL OF ENGINEERING COMPANIES  
of Hawaii

**President**

Corey M. Matsuoka, P.E.  
SSFM International  
Ph: (808) 531-1308

**President-Elect**

Jeffrey K. Kalani, P.E.  
Yogi Kwong Engineers, LLC  
Ph: (808) 942-0001

**Treasurer**

Sean Sugai, P.E.  
Ronald N.S. Ho & Assoc.  
Ph: (808) 941-0577

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Ken Kawahara, P.E.  
Akinaka & Assoc.  
Ph: (808) 836-1900

**Past President**

Robin Lim, P.E.  
Geolabs, Inc.  
Ph: (808) 841-5064

**National Director**

Janice Marsters, PhD.  
Hart Crowser  
Ph: (808) 371-8504

**Directors**

Garret Masuda, P.E.  
InSynergy Engineering  
Ph: (808) 521-3773

Liana Choy, P.E.  
Sato & Assoc.  
Ph: (808) 955-4441

Paul T. Matsuda, P.E.  
Group 70 International, Inc.  
Ph: (808) 523-5866

Ginny M. Wright  
Executive Director  
P.O. Box 88840  
Honolulu, HI 96830  
Ph: (808) 741-4772  
Email: [gwright@acechawaii.org](mailto:gwright@acechawaii.org)  
Website: [www.acechawaii.org](http://www.acechawaii.org)

March 15, 2017

**Senate Committee on Ways and Means**

**Hearing Date: Wednesday, March 22, 9:30 a.m., Conference Room 221**

Honorable Senators Jill Tokuda, Chair; Donovan Dela Cruz, Vice Chair; and Members of the Senate Committee on Ways and Means

Subject: **SUPPORT of HB 628, Relating to STATEWIDE INFRASTRUCTURE CAPACITY BUILDING CONSTRUCTION FINANCING**

Dear Chair Tokuda, Vice Chair Dela Cruz, and Committee Members:

The American Council of Engineering Companies of Hawaii (ACECH) represents more than 70 engineering consulting firms with over 1,500 employees throughout Hawaii. ACEC nationally is a strong supporter of long-term infrastructure investment as a driver of our economy. Modern and efficient infrastructure is critical for protecting public health and safety, promoting commerce, protecting our environment and way of life, and enhancing energy security.

National studies tracked by ACEC have shown:

- *Transportation infrastructure forms the basis of economic growth.* Every dollar invested in highway and transit development generates between \$4-8 in economic output.
- *Continued under-investment hampers the economy,* as inefficiencies in infrastructure systems negatively impact businesses and development.
- *The public supports infrastructure investment as a core government responsibility.* Public polling and numerous recent funding initiatives in mainland states show that voters are willing to support user alternative funding methods and fee increases when additional revenues are dedicated to repair or replace aging infrastructure.

Increasing funding options for local agencies and private developers to build drinking water, wastewater, energy, and transportation systems can only help our economy and improve our long-term security. Consistent with our national organization's strong commitment to infrastructure investment, ACECH supports HB 628 regarding infrastructure capacity financing. We appreciate the opportunity to provide testimony on this matter. Please do not hesitate to contact us if you have any questions.

Respectfully submitted,  
AMERICAN COUNCIL OF ENGINEERING COMPANIES OF HAWAII

Corey Matsuoka, PE  
President



**MAUI**  
CHAMBER OF COMMERCE  
VOICE OF BUSINESS

**HEARING BEFORE THE SENATE COMMITTEE ON WAYS AND MEANS  
HAWAII STATE CAPITOL, SENATE CONFERENCE ROOM 211  
WEDNESDAY, MARCH 22, 2017 AT 9:30 A.M.**

To The Honorable Jill N. Tokuda, Chair;  
The Honorable Donovan M. Dela Cruz, Vice Chair; and  
Members of the Committee on Ways and Means

**TESTIMONY IN SUPPORT OF HB628 RELATING TO STATEWIDE  
INFRASTRUCTURE CAPACITY BUILDING CONSTRUCTION FINANCING**

Aloha, my name is Pamela Tumpap and I am the President of the Maui Chamber of Commerce representing approximately 600 businesses and 16,000 employees on Maui. I am writing share our support of HB628.

Infrastructure is incredibly important to our community and local businesses. Added and improved infrastructure will also help with our affordable housing shortage, which is vital to our community. We support this initiative as it adds another element to the existing programs that help with the much needed infrastructure improvements.

We appreciate the opportunity to testify on this matter and therefore ask that this bill be passed.

Mahalo for your consideration of our testimony and we hope you will move this bill forward.

Sincerely,

*Pamela Tumpap*

Pamela Tumpap  
President

To advance and promote a healthy economic environment for business, advocating for a responsive government and quality education, while preserving Maui's unique community characteristics.