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STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION
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March 24, 2021
10:30 a.m.
State Capitol, Via Videoconference

S.B. NO. 256
RELATING TO SPECIAL PURPOSE REVENUE BONDS
TO ASSIST KEAHOLE HOTEL & SUITES LLC.

House Committee on Transportation

The Department of Transportation (DOT) submits the following **comments** regarding S.B. 256 (the Bill) which authorizes the issuance of special purpose revenue bonds by Department of Budget and Finance, the proceeds of which will be applied to the planning, design, constructing and equipping of facilities for a hotel at the Ellison Onizuka Kona International Airport at Keahole.

DOT appreciates that the issuance of these special purpose revenue bonds will be in the public interest and for the public health, safety and general welfare of citizens of the State.

However, the department respectfully offers the following comments for the Committee's consideration:

- 1.) The Bill makes reference to the proposed special purpose revenue bonds being exempt from federal income taxation. Such an exemption would require the project to be owned by a governmental entity or a 501(c)3 non-profit corporation; although the project could be operated by a for-profit entity if the terms of such operation comply with IRS requirements.
- 2.) Airports Division is subject to both Federal Aviation Administration and existing contractual restrictions regarding how it uses airport revenues. Airport revenues would presumably not be available to support special purpose revenue bonds of this nature.
- 3.) Airports Division is subject to contractual restrictions including restrictions applicable to: (a) the incurrence or guaranty of new indebtedness; (b) the acquisition, disposition and maintenance of property; and (c) a capital budgeting process involving the approval of signatory airlines.

4.) Airports Division is subject to statutory and constitutional restrictions, including, but not limited to, those relating to expenditure of public funds, procurement and leases of governmental land.

5.) In addition, Article VII Section 12 of the Hawaii Constitution states that “[n]o special purpose revenue bonds shall be secured directly or indirectly by the general credit of the issuer or by any revenues or taxes of the issuer other than receipts derived from payments by a person or persons under contract or from any security for such contract or contracts or special purpose revenue bonds and no moneys other than such receipts shall be applied to the payment thereof.”

The special purpose revenue bonds must ‘stand-alone’ on project revenues and should not be supported in any way by airport revenues or other restricted moneys of the Airports Division.

Thank you for the opportunity to provide testimony.

DAVID Y. IGE
GOVERNOR



CRAIG K. HIRAI
DIRECTOR

ROBERT YU
DEPUTY DIRECTOR

EMPLOYEES' RETIREMENT SYSTEM
HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
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MANAGEMENT DIVISION
FINANCIAL ADMINISTRATION DIVISION
OFFICE OF FEDERAL AWARDS MANAGEMENT (OFAM)

WRITTEN ONLY

TESTIMONY BY CRAIG K. HIRAI
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE HOUSE COMMITTEE ON TRANSPORTATION
ON
SENATE BILL NO. 256

March 24, 2021
10:30 A.M.
Via Videoconference

RELATING TO SPECIAL PURPOSE REVENUE BONDS TO ASSIST KEAHOLE
HOTEL & SUITES LLC.

The Department of Budget and Finance offers the following comments on Senate Bill No. 256 which authorizes the issuance of Special Purpose Revenue Bonds (SPRB) to assist Keahole Hotel & Suites LLC, with the planning, designing, constructing, and equipping facilities for a hotel at the Ellison Onizuka Kona International Airport at Keahole pursuant to Part V, Chapter 39A, Hawaii Revised Statutes.

The Department has a technical comment on this bill. Federal tax law requires, among other things, that hotels financed with tax-exempt bond proceeds must be governmentally owned and operated by a governmental unit and/or private entity (subject to a qualified management contract), and available for use by the general public for short term stays.

The Department would like to inform the Legislature and prospective SPRB parties that should the legislation be approved, approval of the SPRB issuance and conduit loan will require further review of the financing proposal to ensure compliance with all federal, state and credit underwriting requirements. For additional information,

please consult our FAQ located at the following link: <http://budget.hawaii.gov/wp-content/uploads/2012/11/SPRB-FAQ.pdf>.

Thank you for your consideration of our comments.



March 22, 2021

Representative Henry Aquino, Chair
Representative Greggor Ilagan, Vice Chair
Committee on Transportation
Hawaii State Legislature

Support for SB255

Dear Representative Aquino, Representative Ilagan, and Members of the House Committee on Transportation,

Thank you for the opportunity to provide our testimony on SB255. We **support** this bill authorizing the issuance of special purpose revenue bonds to assist Keahole Hotel & Suites LLC with planning, designing, constructing, and equipping facilities for a hotel at the Ellison Onizuka Kona International Airport at Keahole (KOA).

We are a strong partner with the Airport Operations Committee (AOC) at KOA, and unfortunately have seen a few instances where the airport had to shut down because of severe weather, and there were no accommodations available for stranded travelers. Because KOA's design is comprised primarily of covered outdoor pavilions, there is not a safe indoor area for travelers and flight crews to seek shelter if flights are cancelled. Therefore, we support the design, construction and building of a limited services hotel at KOA.

KCRA is a collection of master-planned resorts and hotels, situated north of the Ellison Onizuka Kona International Airport at Keahole which represents more than 3,500 hotel and timeshare accommodations and an equal number of resort residential units. This is approximately 35 percent of the visitor accommodations available on the Island of Hawai'i. KCRA member properties annually pay more than \$25 million in TAT, \$25 million in GET and \$11 million in county property taxes. KCRA members employ more than 5,000 Hawaii Island residents.

Sincerely,

A handwritten signature in black ink that reads "Stephanie P. Donoho". The signature is written in a cursive, flowing style.

Stephanie Donoho, Administrative Director



Eric W. Gill, Financial Secretary-Treasurer

Gemma G. Weinstein, President

Godfrey Maeshiro, Senior Vice-President

Tuesday, March 23, 2021

LATE

House Committee on Transportation
Hawaii State Legislature
415 South Beretania Street
Honolulu, HI 96813

Re: SB 256 relating to special purpose revenue bonds

Chair Aquino and Members of the Committee,

UNITE HERE Local 5 – a local labor organization representing nearly 12,000 hotel, health care and food service workers throughout Hawaii would like to offer comments regarding SB 256 relating to special purpose bonds.

SB 256 would authorize the issuance of special purpose revenue bonds to assist Keahole Hotel & Suites LLC with planning, designing, constructing, and equipping facilities for a hotel at the Ellison Onizuka Kona International Airport at Keahole

Given the specific and special interest potentially being served by this Bill, we would ask that the Committee consider and insert the proposed language below:

SECTION 5. In order to assure that the requirements of §39A-155 will be met, the project agreement with respect to the project for the financing of which the revenue bonds are to be issued shall provide that the hotel at Ellison Onizuka Kona International Airport at Keahole shall be operated only by entities which have entered into a valid and binding agreement with the labor organization representing hotel employees in the County of Hawaii that prohibits the organization and its members from engaging in any conduct that would tend to diminish the revenues of such hotel. Proof to the department of budget and finance that such agreement exists shall be a condition precedent to issuance of special purpose revenue bonds.

Thank you for your consideration and we ask for your Committees full support of the proposed amendment above.

Mahalo.