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OFFICE OF THE PUBLIC DEFENDER

STATE OF HAWAII
DEPARTMENT OF BUDGET AND FINANCE
P.O. BOX 150
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ADMINISTRATIVE AND RESEARCH OFFICE
BUDGET, PROGRAM PLANNING AND
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 SENATE COMMITTEE ON WAYS AND MEANS
ON
SENATE BILL NO. 256

February 3, 2021
10:00 A.M.
Via Videoconference

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

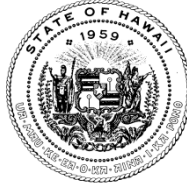
The Department of Budget and Finance offers the following comments on Senate Bill No. 256 which authorizes the issuance of Special Purpose Revenue Bonds (SPRB) to assist Keahole Hotel & Suites LLC, with the planning, designing, constructing, and equipping facilities for a hotel at the Ellison Onizuka 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.



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TESTIMONY BY:

JADE T. BUTAY
DIRECTOR

Deputy Directors
LYNN A.S. ARAKI-REGAN
DEREK J. CHOW
ROSS M. HIGASHI
EDWIN H. SNIFFEN

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION
869 PUNCHBOWL STREET
HONOLULU, HAWAII 96813-5097

February 03, 2021
10:00 a.m.
State Capitol, Teleconference

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

Senate Committee on Ways and Means

The Department of Transportation (DOT) **supports** the intent of S.B. 256. This bill 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.

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. Further, if it is determined that a governmental owner is necessary for the tax-exemption of the special purpose revenue bonds, Airports Division believes that it would be a poor fit to serve in such capacity.

Thank you for the opportunity to provide testimony.

KEAHOLE HOTEL & SUITES, LLC

**THE HONORABLE DONOVAN M. DELA CRUZ, CHAIR
THE HONORABLE GILBERT S.C. KEITH-AGARAN, VICE CHAIR
AND COMMITTEE MEMBERS
SENATE COMMITTEE ON WAYS AND MEANS**

**31st Hawaii State Legislature
Regular Session of 2021
State of Hawai`i**

February 03, 2021

**RE: S.B. 256; RELATING TO THE ISSUANCE OF SPECIAL PURPOSE REVENUE BONDS
TO ASSIST KEAHOLE HOTEL & SUITES LLC**

Chair Donovan M. Dela Cruz, Vice Chair Gilbert S.C. Keith-Agaran, and members of the Senate Committee on Ways and Means, on behalf of KEAHOLE HOTEL & SUITES LLC, I submit the following testimony in **support** of Senate Bill 256 regarding KEAHOLE HOTEL & SUITES LLC.

Senate Bill 256 authorizes the issuance of special purpose revenue bonds to assist KEAHOLE HOTEL & SUITES LLC for planning, designing, constructing, and equipping facilities for a hotel at the Ellison Onizuka Kona International Airport at Keahole as this project will generating revenue and jobs for the State of Hawaii by the creation of a business hotel at the Kona Airport. The project will generate more jobs in areas such as, but not limited to, education, construction, law, finance, food and beverage, accounting, engineering, landscaping, maintenance, and energy. As flights get cancelled especially in this pandemic time its most important with having a Hotel at the Ellison Onizuka Kona International Airport.

In addition Keahole Hotel & Suites will generate taxes, room sales, fees, and lease rents, our project is expected to generate substantial economic growth for the State and the Kona region with increased revenue through the creation of more jobs and this development and operations will generate multi-millions of dollars in revenue for the Department of Transportation Airports Division and State of Hawaii. This special purpose revenue bond will definitely help with economic development, specifically for other businesses in the area as well.

For the reasons stated above, KEAHOLE HOTEL & SUITES, LLC **supports** Senate Bill 256. Thank you for the opportunity to testify on this matter.

Respectfully Submitted,

Melvin G. Mason Jr. CEO

MASON INDUSTREIS, LLC

**THE HONORABLE DONOVAN M. DELA CRUZ, CHAIR
THE HONORABLE GILBERT S.C. KEITH-AGARAN, VICE CHAIR
AND COMMITTEE MEMBERS
SENATE COMMITTEE ON WAYS AND MEANS**

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**RE: S.B. 256; RELATING TO THE ISSUANCE OF SPECIAL PURPOSE REVENUE BONDS
TO ASSIST KEAHOLE HOTEL & SUITES LLC**

Chair Donovan M. Dela Cruz, Vice Chair Gilbert S.C. Keith-Agaran, and members of the Senate Committee on Ways and Means, on behalf of MASON INDUSTRIES LLC, I submit the following testimony in **support** of Senate Bill 256 regarding KEAHOLE HOTEL & SUITES LLC.

Senate Bill 256 authorizes the issuance of special purpose revenue bonds to assist KEAHOLE HOTEL & SUITES LLC for planning, designing, constructing, and equipping facilities for a hotel at the Ellison Onizuka Kona International Airport at Keahole as this project will generating revenue and jobs for the State of Hawaii by the creation of a business hotel at the Kona Airport. The project will generate more jobs in areas such as, but not limited to, education, construction, law, finance, food and beverage, accounting, engineering, landscaping, maintenance, and energy. As flights get cancelled especially in this pandemic time its most important with having a Hotel at the Ellison Onizuka Kona International Airport.

In addition Keahole Hotel & Suites will generate taxes, room sales, fees, and lease rents, our project is expected to generate substantial economic growth for the State and the Kona region with increased revenue through the creation of more jobs and this development and operations will generate multi-millions of dollars in revenue for the Department of Transportation Airports Division and State of Hawaii. This special purpose revenue bond will definitely help with economic development, specifically for other businesses in the area as well.

For the reasons stated above, MASON INDUSTRIES, LLC **supports** Senate Bill 256. Thank you for the opportunity to testify on this matter.

Respectfully Submitted,

Melvin G. Mason Jr. CEO / President