

Date: 02/23/2010

Committee: House Finance

Department: Education

Person Testifying: Kathryn Matayoshi, Interim Superintendent of Education

Title of Bill: HB 2740 (HSCR 288-10) RELATING TO SCHOOLS.

Purpose of Bill: Directs the department of education to enter into a financing agreement for the planning and design of the Royal Kunia Elementary School II using certificates of participation. (\$)

Department's Position: The Department of Education would be supportive of this bill if the funds to make the required payments on the certificates of participation were appropriated to the Department of Budget and Finance, which has the responsibility for the state's debt service payments. If the Department of Education were responsible for the required payments on the certificates of participation, the department would not support this bill.

The Department of Education notes that the paragraph that begins on line 13 of page 2 is not accurate. The construction of the elementary schools in the Maui Lani and Ocean Pointe developments has been completed, using the proceeds from general obligation bonds authorized by the legislature for CIP appropriations for these two schools.

Thank you for the opportunity to testify.

TESTIMONY BY GEORGINA K. KAWAMURA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE HOUSE COMMITTEE ON FINANCE
ON
HOUSE BILL NO. 2740

February 23, 2010

RELATING TO SCHOOLS

House Bill No. 2740 directs the Department of Education to enter into a financing agreement with a private developer for the planning and design of the Royal Kunia Elementary School II at Kunia, Oahu, Hawaii, using certificates of participation (COPS).

The Department has technical comments on this bill. While there are benefits to COPS financing, COPS financing is more costly than traditional general obligation bond financing as it entails appropriation risk for the annual lease payments. In addition, an appropriation under Section 3 of this bill is premature at this time, as payment under a financing agreement can only be made upon completion and occupancy of a facility. Furthermore, Section 3 of the bill appropriates funds from the Statewide Educational Facilities Improvement (SEFI) fund for lease payments. As the SEFI fund is currently funded with tax-exempt general obligation bond proceeds, it cannot be used to pay for operating expenses such as lease payments.

22 February 2010

RE: Support for HB 2740 –To Allow for Royal Kunia Elementary School II to be Built Using Certificate of Participation Funding

Dear Chair Oshiro and House Committee on Finance Members:

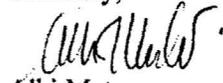
By way of introduction, my name is Albi Mateo, General Manager for ROYAL KUNIA COMMUNITY ASSOCIATION since 1997. Additionally, I am a homeowner and resident of Royal Kunia since 1994.

As you may know, Royal Kunia is a Master Planned Community being developed in two phases. Phase I, consisting of 1,924 units, was completed in 2006. The development of Phase II, where the land for Royal Kunia Elementary School II (RKE II) has been designated, is anticipated to break ground by the first quarter of 2011. The owner of the land identified as the site for the RKE II has committed to constructing the school, but is in need of funds for planning, design and engineering. Your approval of HB 2740 will ensure RKE II will be constructed and ready for our children to obtain the proper education.

For your convenience I am including a copy of an article published on June 30, 2002 in the Honolulu Advertiser related to RKE II. It is my hope the article will provide you a better understanding of our community and its schools, and do what is right.

Thank you for the opportunity to submit this written testimony in of support HB 2740. I am humbly requesting for your approval.

Sincerely,



Albi Mateo

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Posted on: Sunday, June 30, 2002

Building of school faces new roadblock

By Scott Ishikawa
Advertiser Central O'ahu Writer

Construction of Royal Kunia Elementary School, the Department of Education's top priority in new building, has been delayed indefinitely because of liens placed against a financially strapped developer.

The liens against developer Herbert K. Horita prevent the transfer to the state of property needed for the school. Its opening, once scheduled for the mid-1990s, then pushed back to 2001, may not occur until 2004 or 2005 at the earliest.

The effect on nearby Kaleiopuu Elementary School in Village Park has been devastating: Its student body has swelled to nearly 50 percent over capacity since the opening of the Royal Kunia development.

This may be the first time in Hawai'i that a school has been delayed because of a developer's financial problems, a situation that highlights the need for the state Land Use Commission's recent actions requiring better education planning from developers.

The land use commission this month placed stricter guidelines on Castle & Cooke's future Koa Ridge/Waiawa residential development, ensuring new schools are built promptly to keep up with population growth.

"In hindsight, when they planned Royal Kunia, they should have had the school built in the first phase of development, rather than the second phase (where the planned school is situated)," said state Sen. Brian Kanno, D-20th (Ewa Beach, Makakilo, Kapolei). "Schools should be built in a timely manner. Instead, we have Royal Kunia residents still waiting for their school."

Horita, who owns the rights for the unbuilt second phase of the Royal Kunia development where the planned school would be situated, needs to settle debts with other parties before the land for its campus can be transferred. Horita's Halekua Development Corp. owes millions of dollars in mortgage payments and other outstanding debts to four lienholders — City Bank, Robinson Estate, HRT Ltd. and Kunia Residential Partners, an organization formed when he sold a partial stake to Castle & Cooke in 1992.

A lien is placed on a property as a legal way to prevent its being sold or transferred to a third party until a debt or other obligation is settled.

Despite the state Legislature's appropriating \$1.5 million this year for planning and design of the Royal Kunia campus, DOE assistant superintendent Al Suga said the uncertainty of the land title situation means the state cannot accept the 12-acre parcel off Anoiki Street.

"Before we can accept the land, it has to be free and clear of obligations, financial and otherwise," Suga said. "We can start design work for the school, but nothing else until the issue is resolved."

Those close to the situation say until Horita works out an arrangement to pay off his debtors, construction on the second phase of home development around the school site will probably remain stalled as well.

Horita did not return Advertiser phone calls, and his spokesman could not reach him for comment.

Royal Kunia Elementary has been on the state's drawing board for seven years. As the school's opening date was delayed again and again, the area's population swelled as 1,700 homes in the Royal Kunia development's first phase were sold.

The school delay has left Kaleiopuu Elementary in Village Park bulging at the seams. With enrollment hovering between 950 and 1,000, school principal Virginia Padayhag expects the student count to go even higher when more families move into new Royal Kunia homes being built in the development's first phase.

Kaleiopuu Elementary already uses 12 portable classrooms to deal with the student increase and has room for no more, she said.

"Royal Kunia school was on the drawing board before the second Mililani Mauka elementary school was even a concept," said Padayhag, who pointed out that her campus was originally designed for a capacity of 650 to 700 students. "Now Mililani Mauka II is being built and we're still without a new school out here.

"If the school isn't built in the next three to five years, we will have a serious problem."

State Rep. Mark Moses, R-42nd (Kapolei, 'Ewa Village, Village Park) hopes the situation can be resolved before the next legislative session so school construction money can be sought. The estimated \$25 million in construction money would likely be allocated over two years.

"There have been so many roadblocks to this Royal Kunia school, and now this," Moses said about the lien situation. "They need to resolve this land title thing soon, so we can lobby for construction funding in time for the school's 2004- 2005 opening."

Moses said a subdividing problem and previous concerns by the DOE over lack of infrastructure and an access road for the school site have also held up the project. Because the developer hasn't built an access road to the construction site, the DOE may end up paying for that, Suga said.

While the backlog in new schools has been mainly attributed to the lack of state money for construction, this may be the first situation in which a school is delayed because of a developer's financial struggles, according to Kanno.

The Royal Kunia community was conceived by Horita in 1988 as a two-phase, master-planned development of 4,000 homes. In 1992, after financing and permitting delays, Horita sold a 50 percent stake to Castle & Cooke, which became general partner of the 2,000-unit first phase. An estimated 300 units have yet to be built.

Horita maintains sole control of the unbuilt second phase on 210 acres, where the planned school is located.

But the sluggish housing market in the 1990s forced Horita to file in 1999 for bankruptcy protection for

several of his projects. One of them was Royal Kunia Apartments Inc., which included 402 affordable rental townhomes built as part of the overall development.

Kanno said he negotiated with the state and developer on the possibility of moving the campus to the development's first phase where a park was designated, but the difficulty of swapping already-zoned sites proved too great.

Castle & Cooke Homes Hawai'i president Harry Saunders, whose company, through the entity of Kunia Residential Partners, filed a lien in 1999 against Horita for outstanding debt, said the idea of releasing only the school parcel to the state might be a possibility. But that would require the approval of all four lienholders of the property.

"We would like to see the school open ourselves, since a new school would be a big selling point," Saunders said. "At the same time, however, it's not our property, so there is not much we can do."

DOE official Suga said Royal Kunia Elementary, when built, will serve about 750 students, and up to 1,000 children when it operates on a multi-track schedule.

But for now, a giant pile of red dirt and weeds sits where classroom buildings should be standing.

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February 22, 2010

The Honorable Marcus R. Oshiro, Chair
and Members of the House Finance Committee
Hawaii State Capitol
Honolulu, Hawaii 96813

RE: HOUSE BILL HB 2740 – Relating to Royal Kunia Elementary School

Dear Chair Oshiro and Members of the Committee:

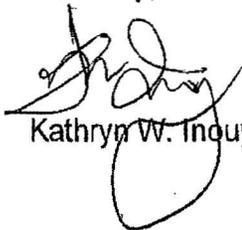
My name is Kathryn Inouye, Chief Operating Officer of Kobayashi Group. I am writing this letter to support the utilization of Certificates of Participation (COPS) financing as a funding mechanism in order to facilitate the construction and development of the Royal Kunia Elementary School II.

I represent RKES LLC, the entity that owns the parcel on which the future school would be built. We had overseen the development of the Kapolei Middle and High Schools in a public-private partnership and have the expertise to oversee the design and development of these types of facilities.

We understand the urgent need for an additional elementary school in this community and the currently over-crowded situation that exists in the first elementary school. We have met with the community and would be willing to develop this school for the community utilizing COPS.

Your support of this legislation would be much appreciated by the future families and students of Royal Kunia.

Sincerely,


Kathryn W. Inouye

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February 23, 2010

Testimony on HB 2740: Relating to Schools

Mr. Chairman and Members of the Committee:

Mr. Chairman and members of the Committee. My name is Richard Oshiro and I am a resident of Waipahu. Although, I am a member of the Waipahu Neighborhood Board, my testimony is presented as a private citizen since the Board has not taken a position on this bill.

HB 2740 proposes a method to expedite construction of a new Royal Kunia Elementary School. The community has waited many years for a new school.

A new school will provide needed relief to the current schools serving the community as well help to meet the needs of the community in the future. We don't need more overcrowded schools as the community continues to grow.

Your favorable consideration of this bill is appreciated. Thank you.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Richard Oshiro". The signature is written in a cursive style with a large, stylized initial "R".

Richard Oshiro