

TESTIMONY BY GEORGINA K. KAWAMURA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE SENATE COMMITTEE ON WAYS AND MEANS
ON
SENATE BILL NO. 2866

February 8, 2010

RELATING TO SPECIAL PURPOSE REVENUE BONDS.

Senate Bill No. 2866 requires an applicant for a special purpose revenue bond to apply for a pre-authorization certification from the Department of Budget and Finance three months prior to the legislative session in which the applicant seeks the bond authorization, and establishes the requirements for the pre-authorization certification for each type of special purpose revenue bond.

The Department opposes this bill. The determination as to whether an applicant is a responsible party is made at the time of the bond sale when the structure, terms and conditions have been finalized. A determination made prior to the bond sale would be premature as the bond structure, terms and conditions change with the bond market, often affecting an applicant's ability to pay debt service and/or third party guaranty agreements. The Department has always been available to meet with an applicant to provide an indication of eligibility for special purpose revenue bond financing, including a preliminary indication as to whether the applicant meets the responsible party requirement.

Monday, February 8, 2010 – 9:30am
Conference Room 211

The Senate Committee on Ways & Means

To: Senator Donna Mercado Kim, Chair
Senator Shan Tsutsui, Vice Chair

From: David Okabe
Executive Vice President & Chief Financial Officer

Re: Testimony in Opposition SB 2866 Relating to Special Purpose Revenue Bonds

My name is David Okabe, Executive Vice President & Chief Financial Officer at Hawai'i Pacific Health (HPH). Hawai'i Pacific Health is a nonprofit health care system and the state's largest health care provider, committed to providing the highest quality medical care and service to the people of Hawai'i and the Pacific Region through its four affiliated hospitals, 44 outpatient clinics and more than 2,200 physicians and clinicians. The network is anchored by its four nonprofit hospitals: Kapi'olani Medical Center for Women & Children, Kapi'olani Medical Center at Pali Momi, Straub Clinic & Hospital and Wilcox Memorial Hospital. Collectively, they lead the state in the areas of women's health, pediatric care, cardiovascular services, bone and joint services and cancer care. Hawai'i Pacific Health ranks among the top 3.8 percent of hospitals nationwide in electronic medical record adoption, with system-wide implementation that allows its hospitals to offer integrated, coordinated care throughout the state. Learn more at: <http://www.hawaiipacifichealth.org>

We oppose SB 2866 for a variety of reasons. The bill puts an unfair burden on entities that seek special purpose revenue bond approval by requiring proof of financial responsibility before legal authorization and an application can be filed. By instituting these legislative barriers, this bill will make it impractical for many organizations to line up the necessary credit enhancement that will satisfy the responsible party requirement before legislative authorization is obtained.

As you know - SPRBs are specifically authorized by the State Constitution and by State law (Chapter 39A) to assist nonprofit corporations that provide health care facilities to the general public. Because the bonds are technically issued by the State, they are tax-exempt, even though the State is not obligated to pay them. The requesting corporation makes all payments and pays all expenses associated with the bond issuance. The bonds have no effect on the State's debt ceiling or debt rating. Healthcare providers like Hawaii Pacific Health rely on the added capital to continue to provide health care services and meet the needs of our patients in a cost effective manner.

The bill is also problematic in that it is not consistent with the scheme set forth in the Hawaii State Constitution, in the Hawaii Revised Statutes, or in the current Hawaii Administrative Rules all of which require approval by two-thirds vote of the members of each house of the legislature before a special purpose revenue bond issue can be authorized, rather than the other way around. The bill might also be arguably unconstitutional since it also inserts a precondition for public access to the legislative process.

Second, the bill unnecessarily increases the workload for the department of budget and finance and transfers what should be a legislative function to an administrative department since it should be solely within the purview of the legislature to determine whether the issuance of special purpose revenue bonds for a particular project is in the public interest.

If the purpose of this bill is to eliminate frivolous SPRB approval in the legislature, the objective of the bill can be better achieved by the legislature in the hearing process by asking SPRB requestors questions such as whether (i) they have confirmed with their tax advisors that the special purpose revenue bonds will qualify for a federal tax exemption (many of the special purpose revenue bonds for which legislative approval is sought do not qualify for tax exemption under the Internal Revenue Code), (ii) they have confirmed with their financial advisors that the project to be financed will generate adequate revenues to pay the debt service on the bonds and is in fact financeable with special purpose revenue bonds; and (iii) they have a preliminary estimate of benefits to the State from the issuance of the requested special purpose revenue bonds.

Thank you for the opportunity to testify.