

DAVID Y. IGE
GOVERNOR



CRAIG K. HIRAI
DIRECTOR

ROBERT YU
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 CRAIG K. HIRAI
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE SENATE COMMITTEE ON WAYS AND MEANS
ON
HOUSE BILL NO. 869, H.D. 1

April 6, 2021
9:30 A.M.

Via Videoconference

RELATING TO SPECIAL PURPOSE REVENUE BONDS TO ASSIST LUANA KAI A
LIFE PLAN COMMUNITY.

The Department of Budget and Finance offers the following comments on House Bill No. 869, H.D. 1, which authorizes the issuance of Special Purpose Revenue Bonds (SPRB) to assist the Luana Kai A Life Plan Community, a Hawaii nonprofit corporation, in the development and operation of a continuing care retirement community pursuant to Part II, Chapter 39A, Hawaii Revised Statutes.

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.



LUANA KAI – A Life Plan Community

TO: SENATOR DONOVAN DELA CRUZ, CHAIR
SENATOR GILBERT KEITH-AGARAN, VICE-CHAIR
MEMBERS OF THE SENATE WAYS AND MEANS COMMITTEE

RE: TESTIMONY IN **SUPPORT** OF HOUSE BILL (HB) 869 HOUSE DRAFT (HD) 1 –
RELATING TO SPECIAL PURPOSE REVENUE BONDS TO ASSIST LUANA KAI A LIFE PLAN
COMMUNITY **REQUESTED AMENDMENT TO 7/1/2021 EFFECTIVE DATE**

Dear Chair, Vice-Chair and Members of the Committee:

Luana Kai is a nonprofit organization that is set up to be a tax-exempt 501(c)(3) not-for-profit entity. Luana Kai will own a proposed life plan community to be located in Hawaii Kai, Honolulu, Hawaii. Because of its 501(c)(3) status, it will be eligible for tax-exempt municipal bond financing (special purpose revenue bonds) through the State of Hawaii Dept. of Budget and Finance (B&F).

A life plan community is a residential retirement alternative for seniors 62 and older. It is geared to healthy seniors interested in a community lifestyle supporting health and wellness, access to on-campus restaurants and activities, and promotion of a social model of aging. Residents may age through a continuum of care, and one or both members of a household may access assisted living, residential memory care and/or skilled nursing, if needed. Generally, the financial model provides discounted services in levels of care beyond independent living.

Luana Kai in particular is preliminarily planned to include 260 independent living apartments of varying sizes, 40 assisted living apartments, 30 memory care apartments, and 36 private skilled nursing suites. The program would include: housekeeping, dining options, wellness and fitness, security/emergency alert system, scheduled transportation services, and social and recreational programs. Higher levels of care include assistance with activities of daily living (dressing, bathing, toileting, medication management, and feeding) and health care services.

Luana Kai's market study confirms that the Honolulu market, and Hawaii Kai specifically, are underserved and lacking sufficient senior housing options. In fact, US Census data show more citizens age 65 and over in East Honolulu/Hawaii Kai (25.4%) than in the City and County of Honolulu (18.2% on average).¹ Luana Kai will provide housing in an attractive and upscale design, with green spaces and community connections. The developers envision commercial

¹ www.census.gov/quickfacts/fact/table/easthonolulucdphawaii,honolulucountyhawaii/HCN010212h

businesses at the ground level open to the neighborhood, including a possible medical clinic, coffee house, etc. One parking spot will be provided per independent resident along with group transportation, but generally the traffic impact of projects like Luana Kai is much less than a condominium or housing complex of similar size.

Special purpose revenue bonds issued through the State do not impact the State's financial condition, nor put the State at risk of bond repayment, nor put Hawaii citizens at risk of repayment or of higher taxes, nor do they affect the State's bonding capacity for its own infrastructure. See B&F's SPRB-FAQs <https://budget.hawaii.gov/wp-content/uploads/2012/11/SPRB-FAQ.pdf> attached.

The State simply acts as a conduit to confer upon the financing the State's tax-exemption. Current IRS rules prohibit 501(c)(3) entities from accessing the financing market directly without a conduit, even though these entities are tax-exempt otherwise.

Luana Kai respectfully requests support of the necessary legislation permitting the State on behalf of the Corporation to issue special purpose revenue bonds in an amount up to \$500 million. An early tax-exempt financing of approximately \$20-25 million will provide capital for architectural work, development activities and marketing to seniors. This debt will be refinanced under the auspices of the original legislation once the project meets all necessary milestones. The Luana Kai development and financing team have significant experience with life plan communities, and both the investment banker and one of the development partners successfully brought Kahala Nui to the market in 2003.

Finally, Luana Kai respectfully requests that the committee amend the bill to provide for a clean effective date of July 1, 2021 as originally introduced in the measure. The bill has gone through 3 prior public committee hearings with no opposing testimony submitted so far and none anticipated in WAM. As such, a clean effective date would allow the House to move to agree and save legislators' additional time and precious resources in the final stages of the session.

Thank you for the opportunity to testify

SPECIAL PURPOSE REVENUE BONDS – FREQUENTLY ASKED QUESTIONS

Q: What is a Special Purpose Revenue Bond (SPRB)?

A: Special purpose revenue bonds (SPRBs) are a type of municipal revenue bond authorized by Hawaii's Legislature that can be issued by the State to provide loan financing to assist qualifying private capital improvement projects (for example, certain hospital or school construction) in the public interest. The bonds do not constitute a general obligation of the State and are not State monies. SPRBs are sold to private investors, who provide the actual funds and invest their funds in exchange for tax-exempt or taxable interest payments. The borrowers are required to secure the loans with revenues as part of the loan agreements. For the State, selling SPRBs is a way to facilitate loans for certain categories of private business projects without spending taxpayers' money or placing the State's credit at risk.

Q: How Would SPRB Financing Affect Me and Hawaii?

A: SPRBs that finance loans for improvement projects:

- • are not grants or subsidies to borrowers;
- • are funded by private investors, not by the State of Hawaii;
- • are loans to creditworthy borrowers that must be repaid promptly and with interest;
- • do not affect or jeopardize the State's credit rating;
- • can enable needed improvements on projects that may not be financially feasible otherwise;
- • can support maintenance of critical infrastructure projects that serve and protect the public;
- • are investments funded by private investors seeking tax-exempt interest payments while bearing risk of nonpayment (e.g. loss of their investment); and
- • do not divert public funds from infrastructure, education or other public functions.

Q: How would SPRB financing work?

A: The Legislature authorizes the sale of special purpose revenue bonds (SPRBs) to private investors, and the revenues are used to fund loans to borrowers for improvement projects. Investors receive repayments of principal and tax-exempt interest payments over time from the project owners. Because investors accept lower interest rates for tax-free income, project owners save money.

Q: Is SPRB financing already used to fund projects in Hawaii?

A: Yes. The SPRB funding mechanism has been used for projects with public benefits, including utilities, health care facilities, and certain educational and early childhood education facilities.

Q: How would a borrower/project owner apply for SPRB financing?

The process begins with a borrower securing legislative authorization for the Department of Budget and Finance (B&F) to issue the SPRB. Negotiations between the borrower, B&F, underwriter and trustee regarding the terms of the SPRB issuance follow. The underwriter sells the SPRBs to investors, the investors' money is conveyed to the trustee, and the trustee loans

those proceeds to the borrower. The borrower makes payments of principal and interest to the trustee, who in turn makes payments of principal and interest back to investors.

Q: Would funds for SPRB projects take money directly away from other public works/infrastructure projects?

A: No. Private investors provide the money that is loaned to fund improvement projects, and the borrower repays the principal and interest on the loan. Selling SPRBs enables funds to be loaned for private capital improvement projects serving a public interest without spending taxpayers' money.

Q: Don't tax-exempt bonds mean the State loses out on collecting income tax from investors?

A: Possibly, but not necessarily. Although the tax-exempt status of SPRBs means that the State would not collect income taxes on interest paid to Hawaii SPRB investors, those investors wouldn't necessarily select a Hawaii-based taxable bond alternative if the SPRB wasn't available. The State wouldn't incur a loss on SPRBs sold to out-of-state investors who aren't Hawaii taxpayers.

Q: Would financial need be a consideration in whether the SPRB financing would be made available to particular borrower?

A: No. The SPRB financing mechanism considers the merits of the project, not financial need of the borrower, and the financing mechanism takes the form of lower interest loans, not grants or subsidies.



LUANA KAI – A Life Plan Community

TO: SENATOR DONOVAN DELA CRUZ, CHAIR
SENATOR GILBERT KEITH-AGARAN, VICE-CHAIR
MEMBERS OF THE SENATE WAYS AND MEANS COMMITTEE

RE: TESTIMONY IN **SUPPORT** OF HOUSE BILL (HB) 869 HOUSE DRAFT (HD) 1 –
RELATING TO SPECIAL PURPOSE REVENUE BONDS TO ASSIST LUANA KAI A LIFE PLAN
COMMUNITY **REQUESTED AMENDMENT TO 7/1/2021 EFFECTIVE DATE**

Dear Chair, Vice-Chair and Members of the Committee:

Luana Kai is a nonprofit organization that is set up to be a tax-exempt 501(c)(3) not-for-profit entity. Luana Kai will own a proposed life plan community to be located in Hawaii Kai, Honolulu, Hawaii. Because of its 501(c)(3) status, it will be eligible for tax-exempt municipal bond financing (special purpose revenue bonds) through the State of Hawaii Dept. of Budget and Finance (B&F).

A life plan community is a residential retirement alternative for seniors 62 and older. It is geared to healthy seniors interested in a community lifestyle supporting health and wellness, access to on-campus restaurants and activities, and promotion of a social model of aging. Residents may age through a continuum of care, and one or both members of a household may access assisted living, residential memory care and/or skilled nursing, if needed. Generally, the financial model provides discounted services in levels of care beyond independent living.

Luana Kai in particular is preliminarily planned to include 260 independent living apartments of varying sizes, 40 assisted living apartments, 30 memory care apartments, and 36 private skilled nursing suites. The program would include: housekeeping, dining options, wellness and fitness, security/emergency alert system, scheduled transportation services, and social and recreational programs. Higher levels of care include assistance with activities of daily living (dressing, bathing, toileting, medication management, and feeding) and health care services.

Luana Kai's market study confirms that the Honolulu market, and Hawaii Kai specifically, are underserved and lacking sufficient senior housing options. In fact, US Census data show more citizens age 65 and over in East Honolulu/Hawaii Kai (25.4%) than in the City and County of Honolulu (18.2% on average).¹ Luana Kai will provide housing in an attractive and upscale design, with green spaces and community connections. The developers envision commercial

¹ www.census.gov/quickfacts/fact/table/easthonolulucdphawaii,honolulucountyhawaii/HCN010212h

businesses at the ground level open to the neighborhood, including a possible medical clinic, coffee house, etc. One parking spot will be provided per independent resident along with group transportation, but generally the traffic impact of projects like Luana Kai is much less than a condominium or housing complex of similar size.

Special purpose revenue bonds issued through the State do not impact the State's financial condition, nor put the State at risk of bond repayment, nor put Hawaii citizens at risk of repayment or of higher taxes, nor do they affect the State's bonding capacity for its own infrastructure. See B&F's SPRB-FAQs <https://budget.hawaii.gov/wp-content/uploads/2012/11/SPRB-FAQ.pdf> attached.

The State simply acts as a conduit to confer upon the financing the State's tax-exemption. Current IRS rules prohibit 501(c)(3) entities from accessing the financing market directly without a conduit, even though these entities are tax-exempt otherwise.

Luana Kai respectfully requests support of the necessary legislation permitting the State on behalf of the Corporation to issue special purpose revenue bonds in an amount up to \$500 million. An early tax-exempt financing of approximately \$20-25 million will provide capital for architectural work, development activities and marketing to seniors. This debt will be refinanced under the auspices of the original legislation once the project meets all necessary milestones. The Luana Kai development and financing team have significant experience with life plan communities, and both the investment banker and one of the development partners successfully brought Kahala Nui to the market in 2003.

Finally, Luana Kai respectfully requests that the committee amend the bill to provide for a clean effective date of July 1, 2021 as originally introduced in the measure. The bill has gone through 3 prior public committee hearings with no opposing testimony submitted so far and none anticipated in WAM. As such, a clean effective date would allow the House to move to agree and save legislators' additional time and precious resources in the final stages of the session.

Thank you for the opportunity to testify

SPECIAL PURPOSE REVENUE BONDS – FREQUENTLY ASKED QUESTIONS

Q: What is a Special Purpose Revenue Bond (SPRB)?

A: Special purpose revenue bonds (SPRBs) are a type of municipal revenue bond authorized by Hawaii's Legislature that can be issued by the State to provide loan financing to assist qualifying private capital improvement projects (for example, certain hospital or school construction) in the public interest. The bonds do not constitute a general obligation of the State and are not State monies. SPRBs are sold to private investors, who provide the actual funds and invest their funds in exchange for tax-exempt or taxable interest payments. The borrowers are required to secure the loans with revenues as part of the loan agreements. For the State, selling SPRBs is a way to facilitate loans for certain categories of private business projects without spending taxpayers' money or placing the State's credit at risk.

Q: How Would SPRB Financing Affect Me and Hawaii?

A: SPRBs that finance loans for improvement projects:

- • are not grants or subsidies to borrowers;
- • are funded by private investors, not by the State of Hawaii;
- • are loans to creditworthy borrowers that must be repaid promptly and with interest;
- • do not affect or jeopardize the State's credit rating;
- • can enable needed improvements on projects that may not be financially feasible otherwise;
- • can support maintenance of critical infrastructure projects that serve and protect the public;
- • are investments funded by private investors seeking tax-exempt interest payments while bearing risk of nonpayment (e.g. loss of their investment); and
- • do not divert public funds from infrastructure, education or other public functions.

Q: How would SPRB financing work?

A: The Legislature authorizes the sale of special purpose revenue bonds (SPRBs) to private investors, and the revenues are used to fund loans to borrowers for improvement projects. Investors receive repayments of principal and tax-exempt interest payments over time from the project owners. Because investors accept lower interest rates for tax-free income, project owners save money.

Q: Is SPRB financing already used to fund projects in Hawaii?

A: Yes. The SPRB funding mechanism has been used for projects with public benefits, including utilities, health care facilities, and certain educational and early childhood education facilities.

Q: How would a borrower/project owner apply for SPRB financing?

The process begins with a borrower securing legislative authorization for the Department of Budget and Finance (B&F) to issue the SPRB. Negotiations between the borrower, B&F, underwriter and trustee regarding the terms of the SPRB issuance follow. The underwriter sells the SPRBs to investors, the investors' money is conveyed to the trustee, and the trustee loans

those proceeds to the borrower. The borrower makes payments of principal and interest to the trustee, who in turn makes payments of principal and interest back to investors.

Q: Would funds for SPRB projects take money directly away from other public works/infrastructure projects?

A: No. Private investors provide the money that is loaned to fund improvement projects, and the borrower repays the principal and interest on the loan. Selling SPRBs enables funds to be loaned for private capital improvement projects serving a public interest without spending taxpayers' money.

Q: Don't tax-exempt bonds mean the State loses out on collecting income tax from investors?

A: Possibly, but not necessarily. Although the tax-exempt status of SPRBs means that the State would not collect income taxes on interest paid to Hawaii SPRB investors, those investors wouldn't necessarily select a Hawaii-based taxable bond alternative if the SPRB wasn't available. The State wouldn't incur a loss on SPRBs sold to out-of-state investors who aren't Hawaii taxpayers.

Q: Would financial need be a consideration in whether the SPRB financing would be made available to particular borrower?

A: No. The SPRB financing mechanism considers the merits of the project, not financial need of the borrower, and the financing mechanism takes the form of lower interest loans, not grants or subsidies.

HB-869-HD-1

Submitted on: 4/1/2021 1:09:25 AM

Testimony for WAM on 4/6/2021 9:30:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Donald L Williams	Individual	Comments	No

Comments:

I am writing about House Bill 869, HD1 that evidently already has been passed to the senate and will be the subject of a hearing on 04/06/2021. I draw your attention to the attached comments by Natalie Iwasa. I find it quite out of the ordinary for the state legislature to be granting privileges to such an unforthcoming and possibly unregistered and nonexistant entity. In the prior legislative testimony I have reviewed, the principals of "Luna Kai A Life Plan Community" are not identified. And it appears that since the organization is not registered as a business or tax exempt organization, the principles remain indeterminable. The testimony speaks of specifics for the project but fails to identify a location for the project. The testimony claims the involvement of individuals experienced in elder care facilities but these individuals are not identified. The proposed project appears to be a development for financially well off seniors and not for the middle class elders that actually live in Hawaii Kai. The impact of a project of this magnitude will be considerable. I believe that the House did not execute due diligence before approving this bill.

I realize that there are many legal and regulatory levels which will review this project before it can reach fruition. However, I believe to grant Luna Kai's request to issue bonds based on fragmented and incomplete information is foolhardy and premature.

Thank You,

Donald Williams

Comments of N. Iwasa:

https://nextdoor.com/news_feed/?post=182027656&is=npe&mar=false&ct=R0TKoVNV3YcxbIN6Tc4G2vz0JpSqzo1ULCy710jBM65VJWXAkhp01vcfPLGm_JO&ec=iD9EVf8Fqz_GipY9I9G7iq%3D%3D

HB-869-HD-1

Submitted on: 4/1/2021 11:18:38 AM

Testimony for WAM on 4/6/2021 9:30:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Deborah G. Nehmad	Individual	Comments	No

Comments:

I would like get more information about the organization behind this before forming an opinion on this bill. And is the effective date really 2060?

Thank yoy

TO: Members of the Committee on Water and Land

FROM: Natalie Iwasa, CPA, CFE
808-395-3233

HEARING: 1 p.m. Monday, March 15, 2021

SUBJECT: HB 1027, HD2 – Establishment of Special Fund for Marine Life
Conservation District - **OPPOSE**

Aloha Chair Inouye and Committee Members,

Thank you for allowing me the opportunity to provide testimony on HB 1027, HD2, which would establish a marine life conservation district special fund. I oppose the creation of this special fund and special funds in general.

Imagine if your household had special funds. You could have funds for food, household costs, vacations, medical costs, school expenses, taxes, repairs and maintenance, etc.

Now imagine when deposits are made to your bank accounts, and they get divvied up accordingly.

Wow, it sure does take a lot of time to account for all of those funds, and oops, you're too short in the taxes fund, and you need to "borrow" from one of the other funds. I guess this time it will come out of the vacation fund. Oh wait, that's not quite enough.

You get the idea. **Special funds are inefficient and should be used sparingly.** The state should work toward reducing the number of special funds, not increasing them.

Please vote "no" on this bill.