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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 RODERICK K. BECKER
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT & BUSINESS
ON
HOUSE BILL NO. 535

January 30, 2019
10:00 A.M.
Room 309

RELATING TO THE ISSUANCE OF SPECIAL PURPOSE REVENUE BONDS TO
ASSIST PEARL HARBOR FLOATING DRYDOCK, LLC.

House Bill No. 535 authorizes the issuance of Special Purpose Revenue Bonds (SPRB) to assist Pearl Harbor Floating Drydock, LLC, to fund the construction of a purpose-built floating drydock at Pearl Harbor to service submarines and surface ships pursuant to Part III, Chapter 39A, Hawaii Revised Statutes.

The Department is providing comments only to advise 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.

HB-535

Submitted on: 1/28/2019 12:12:41 PM

Testimony for EDB on 1/30/2019 10:00:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Ann Chung	Pacific Marine	Support	Yes

Comments:

Pearl Harbor Naval Shipyard, one of four Naval shipyards in the U.S., is a significant part of federal military value-added comprising 6 percent of Hawaii GDP. While the submarine footprint in Pearl Harbor will continue to grow slightly by 2025, the surface combatant fleet currently homeported in Pearl Harbor is planned to be significantly reduced, based on the current Navy Workload Schedules which reflect surface ships being relocated to San Diego for deep maintenance, and some at risk for not returning.

Surface vessel repairs are typically outsourced to private-sector ship repair companies, a major part of the estimated \$180-200 million in civilian ship repair activities in Hawaii during 2018.

The impact of losing surface vessel repair work would be far-reaching, well beyond the loss of direct military jobs associated with surface ships leaving the area. The Navy's drydock capacity shortfalls will refocus nearly 100% of the current PH drydock capacity on submarine maintenance and displace nearly all surface ship drydock maintenance and modernization to the west coast. The loss of Navy surface ship drydock maintenance to the PH private-sector ship repair community would significantly shrink the local industry and be UNRECOVERABLE.

There will be drastic adverse economic and industrial impacts to the State of Hawaii as a result of the U.S. Navy's current plan to move surface fleet maintenance from Pearl Harbor to the West Coast. A mitigation strategy is needed that avoids the adverse economic impacts of displaced ship repair activities over the next seven years: loss of nearly \$1.31 billion in Hawaii GDP, \$351 million in labor earnings, and an annual average of nearly 1000 jobs each year.

The construction of a purpose-built floating drydock capable of accommodating any of the submarines and surface ships currently in and planned for at Pearl Harbor represents the best mitigating solution for the State of Hawaii. This floating drydock will not only protect private-sector maritime jobs that are expected to be lost, but will stimulate overall job growth of this sector, prevent the erosion of Hawaii's private ship repair capability and provide greater strength and stability to the Navy's Mid-Pacific Surface Force. This offers a shared solution for the industry, State of Hawaii, and Navy that results in a fifth drydock; a new, mobile, floating asset in place by 2022. Given its 50+ year life cycle, this additional Pearl Harbor drydocking capacity will provide

economic gains well into the future. Pearl Harbor Floating Drydock, LLC has considerable experience in the construction of purpose-built floating drydocks. The issuance of special purpose revenue bonds in this bill is in the public interest and for the public health, safety, and general welfare.



Chamber of Commerce HAWAII

The Voice of Business

**Testimony to the House Committee on Economic Development & Business
Wednesday, January 30, 2019 at 10:00 A.M.
Conference Room 309, State Capitol**

**RE: HOUSE BILL 535 RELATING TO THE ISSUANCE OF SPECIAL PURPOSE
REVENUE BONDS TO ASSIST PEARL HARBOR FLOATING DRYDOCK, LLC.**

Chair McKelvey, Vice Chair Kitagawa, and Members of the Committee:

The Chamber of Commerce Hawaii ("The Chamber") **supports** HB 535, which authorizes the issuance of special purpose revenue bonds to assist Pearl Harbor Floating Drydock, LLC, for the construction of a purpose-built floating drydock at Pearl Harbor to service submarines and surface ships.

The Chamber is Hawaii's leading statewide business advocacy organization, representing about 2,000+ businesses. Approximately 80% of our members are small businesses with less than 20 employees. As the "Voice of Business" in Hawaii, the organization works on behalf of members and the entire business community to improve the state's economic climate and to foster positive action on issues of common concern.

Hawaii's ship repair industry is critical for providing cost-effective, high-quality services to all commercial and government customers and maintaining the state's industrial base and preserving its industrial workforce. Additionally, the industry complements the capabilities and capacity of the Pearl Harbor Naval Shipyard and Intermediate Maintenance Facility, Hawaii's largest industrial employer, by serving as a ready resource that is able to respond to surge and peak loading demands. As such, the ship repair industry plays a significant role in supporting the U.S. military fleet, so that it can respond to crisis anywhere in the Indo-Pacific region.

Unlike its counterparts in the continental U.S., such as California, Hawaii's ship repair industry is unable to benefit from the mobility of expertise and desired skills from across state lines due to the high cost of living and the state's remoteness. As such, it is a challenge for the industry to remain globally competitive, and the loss of work to off-island competitors, along with an inability to maintain ship repair capability, is a constant risk.

For the reasons above, the construction of a floating drydock is essential for this industry and our state. Thank you for this opportunity to testify.

HB-535

Submitted on: 1/29/2019 9:38:34 AM

Testimony for EDB on 1/30/2019 10:00:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Steven Loui	Pacific Marine	Support	No

Comments:

This bill is needed to prevent loss of income and jobs in the ship repair industry.

HB-535

Submitted on: 1/29/2019 2:35:34 AM

Testimony for EDB on 1/30/2019 10:00:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Randy Gonce	Individual	Oppose	No

Comments:

Aloha Chair,

I submit testimony today in opposition of HB 535. As a working resident of Hawaii I oppose utilizing public and state resources to assist in the increased militarization of the islands and the pacific especially that of a private Limited Liability Corporation.

In 2018, the Navy stated it was going to spend \$5 billion dollars to improve Pearl Harbor shipyard's aged infrastructure and to accommodate an expected increase in Virginia-class attack submarine work. This includes the dry docks. The Trump administration has increased the DOD, Pentagon, and subsequently the Military's budget significantly reaching just shy of \$750 Billion dollars. In this new budget it has appropriations for 2 new large Virginia Class Submarines, which is what the upgrades to these dry docks are poised to accomodate. It is well within the means of the federal government to fund this project without the state's assistance.

Assisting private LLC's that have federal contracts is a cause for a red flag even if the State beleives this to be in the "public's interest". I am curious of who from the public was consulted and what criteria this decision was based on.

Mahalo for this oppurtunity to testify.

TESTIMONY

FOR HB 535 - RELATING TO THE ISSUANCE OF SPECIAL PURPOSE REVENUE BONDS TO ASSIST PEARL HARBOR FLOATING DRYDOCK, LLC.

COMMITTEE ON ECONOMIC DEVELOPMENT & BUSINESS

Rep. Angus L.K. McKelvey, Chair

Rep. Lisa Kitagawa, Vice Chair

DATE: Wednesday, January 30, 2019

TIME: 10:00 a.m.

PLACE: Conference Room 309

As a former Commanding Officer of the Pearl Harbor Shore Intermediate Maintenance Activity (SIMA) and the Intermediate Maintenance Officer for the COMMANDER, PACIFIC FLEET, I gained significant expertise and experience in the criticality of the private sector ship repair industrial base in Hawaii. Additionally, I was an Executive Manager at Honolulu Shipyard and Pacific Shipyards at a critical period in the Industry's history. Ultimately, I was the President of BAE Systems Ship Repair until retirement in 2015 and the BAE Hawaii Shipyards located at DD# 4, and the prime contractor on the current multiyear surface ship contract, was one of my key Business Units in my AOR (Area of Responsibility).

Therefore, I have had direct and personal involvement in the local ship repair Industry for over 20 years and keenly aware of the vital role it plays in supporting Pearl Harbor home ported surface ships and those transiting ships in the Pacific. There is a critical balance of public/private workload that is required to maintain a trained and vibrant Industry. Without a stable and predictable non-nuclear surface ship workload, the Industry will decline and erode to the point where it is unrecoverable.

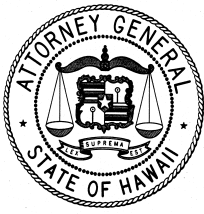
Pearl Harbor Naval Shipyard, one of four Naval shipyards in the U.S., is a significant part of federal military value-added comprising 6 percent of Hawaii GDP. While the submarine footprint and associated workload in Pearl Harbor will continue to grow, the home ported surface ship workload is forecasted to be significantly reduced, based on the current Navy Workload Schedules which reflect surface ships being relocated to San Diego for dry-docking related maintenance, and some at risk for not returning.

Surface vessel repairs are typically outsourced to private-sector ship repair companies, a major part of the estimated \$180-200 million in civilian ship repair activities in Hawaii during 2018. The impact of losing surface vessel repair work would be far-reaching, well beyond the loss of direct military jobs associated with surface ships leaving the area. The Navy's documented drydock capacity shortfalls will refocus almost all of the current PH drydock capacity on critical submarine maintenance and displace nearly all surface ship drydock maintenance and modernization to the west coast. The loss of Navy surface ship drydock maintenance to the Pearl Harbor private-sector ship repair community would cause irrecoverable damage to this critical Industry, which is a national asset.

There will be drastic adverse economic and industrial impacts to the State of Hawaii as a result of the U.S. Navy's current plan to move surface fleet maintenance from Pearl Harbor to the West Coast. A mitigation strategy is needed that avoids the adverse economic impacts of displaced ship repair activities over the next seven years: loss of nearly \$1.31 billion in Hawaii GDP, \$351 million in labor earnings, and an annual average of nearly 1000 jobs each year. **Current workload schedules are**

forecasted through 2025 and if this drydock shortfall is not remedied, this economic impact will continue.

The immediate and most cost-effective solution for the State of Hawaii is the construction of a purpose-built floating drydock capable of accommodating any of the submarines and surface ships currently in and planned for at Pearl Harbor. This floating drydock will not only protect private-sector maritime jobs that are expected to be lost, but will stimulate overall job growth of this sector, prevent the erosion of Hawaii's private ship repair capability and provide greater strength and stability to the Navy's Mid-Pacific Surface Force. This offers a shared solution for the Industry, State of Hawaii, and Navy that results in a fifth drydock; a new, mobile, floating asset that can be in place by 2022. Given its 50+ year life cycle, this additional Pearl Harbor drydocking capacity will provide economic gains well into the future. Pearl Harbor Floating Drydock, LLC has considerable experience in the construction of purpose-built floating drydocks.



**TESTIMONY OF
THE DEPARTMENT OF THE ATTORNEY GENERAL
THIRTIETH LEGISLATURE, 2019**

LATE

ON THE FOLLOWING MEASURE:

H.B. NO. 535, RELATING TO THE ISSUANCE OF SPECIAL PURPOSE REVENUE BONDS TO ASSIST PEARL HARBOR FLOATING DRYDOCK, LLC..

BEFORE THE:

HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT & BUSINESS

DATE: Wednesday, January 30, 2019 **TIME:** 10:00 a.m.

LOCATION: State Capitol, Room 309

TESTIFIER(S): Clare E. Connors, Attorney General, or
Randall S. Nishiyama, Deputy Attorney General

Chair McKelvey and Members of the Committee:

The Department of the Attorney General provides the following comments regarding this bill.

This bill authorizes an unspecified amount of special purpose revenue bonds pursuant to part III, chapter 39A, Hawaii Revised Statutes, to assist Pearl Harbor Loading Drydock, LLC, for the construction of a purpose-built floating drydock at Pearl Harbor to service submarines and surface ships. Part III, chapter 39A, relates to the power to issue special purpose revenue bonds to assist manufacturing enterprises.

After consulting with the State's Public Finance Counsel, Craig Scully, Esq., Katten Muchin Rosenman LLP, we note that based on the bill's intent "to service" submarines and surface ships rather than to construct these ships, we believe that this project would be an industrial enterprise, and should be subject to part V, chapter 39A, assisting industrial enterprises. In addition, Mr. Scully notes that the Internal Revenue Service has ruled that drydock used for the maintenance and repair of ships and available to the general public, including the federal government, are eligible for tax-exempt financing. However, drydocks used to construct ships are considered to be a manufacturing enterprise, and are NOT eligible for tax-exempt financing.

Consequently, to permit the subject special purpose revenue bonds to be eligible for tax-exempt financing, we recommend that the bill's references to part III, chapter

39A, be changed to part V, chapter 39A, and all references to "manufacturing enterprises" be changed to "industrial enterprises."

We respectfully ask the Committee to pass this bill with the recommended amendments.