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DIRECTOR

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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 RODERICK K. BECKER
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE SENATE COMMITTEE ON WAYS AND MEANS
ON
SENATE BILL NO. 985

February 5, 2019
10:00 A.M.
Room 211

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

Senate Bill No. 985 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.



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

ON THE FOLLOWING MEASURE:

S.B. NO. 985, RELATING TO THE ISSUANCE OF SPECIAL PURPOSE REVENUE BONDS TO ASSIST PEARL HARBOR FLOATING DRYDOCK, LLC..

BEFORE THE:

SENATE COMMITTEE ON WAYS AND MEANS

DATE: Tuesday, February 5, 2019 **TIME:** 10:00 a.m.

LOCATION: State Capitol, Room 211

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

Chair Dela Cruz 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.



Chamber of Commerce HAWAII

The Voice of Business

**Testimony to the Senate Committee on Ways and Means
Tuesday, February 5, 2019 at 10:00 A.M.
Conference Room 211, State Capitol**

RE: SENATE BILL 985 RELATING TO THE ISSUANCE OF SPECIAL PURPOSE REVENUE BONDS TO ASSIST PEARL HARBOR FLOATING DRYDOCK, LLC.

Chair Dela Cruz, Vice Chair Keith-Agaran, and Members of the Committee:

The Chamber of Commerce Hawaii ("The Chamber") **supports** SB 985, 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.



**Testimony to the Senate Committee on Ways & Means
Tuesday, February 5, 2019 at 10:00 A.M.
Conference Room 211, State Capitol**

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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.

SB-985

Submitted on: 2/2/2019 12:00:11 PM

Testimony for WAM on 2/5/2019 10:00:00 AM

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

Comments:

We STRONGLY SUPPORT SB985. 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 and surface ships will be relocated to San Diego for deep maintenance, and most are 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.

We urge you to pass this bill.

SB-985

Submitted on: 2/4/2019 9:23:12 AM

Testimony for WAM on 2/5/2019 10:00:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Michael Buelsing	Testifying for Pacific Marine & Supply, Co.	Support	No

Comments:

Through its subsidiary, Pacific Shipyards, LLC., Pacific Marine has been involved with the Ship Repair Association of Hawaii (SRAH) since its founding in 2002. Without the addition of new drydocking capacity at Pearl Harbor Naval Shipyard (PHNSY), SRAH anticipates that all or nearly-all of the private-sector supported surface-ship maintenance activities at PHNSY could be forced to relocate to San Diego - an estimated loss of nearly 1,000 jobs and a GDP impact to the State of Hawaii of up to \$1.31 billion over the next seven years alone.

To avoid this outcome, Pacific Marine supports the initiative to deploy a purpose-built mobile floating drydock at Pearl Harbor, and specifically supports S.B. 985 as a means of financing the construction of the drydock.



Ship Repair Association of Hawaii

P.O. Box 29001, Honolulu HI 96820
Ph# (808) 848-6211 Fax# (808) 848-6279

4 February 2019

COMMITTEE ON WAYS AND MEANS

Senator Donovan M. Dela Cruz, Chair

Senator Gilbert S.C. Keith-Agaran, Vice Chair

Testimony for SB985

DATE: Tuesday, February 5, 2019

TIME: 10:00 a.m.

PLACE: Conference Room 211

State Capitol, 415 South Beretania Street

Dear Senator Donovan M. Dela Cruz, Chair; Senator Gilbert S.C. Keith-Agaran, Vice Chair; and members of the Ways and Means Committee:

The Ship Repair Association of Hawaii (SRAH) strongly supports the need for special purpose revenue bonds to support the construction of a purpose-built floating drydock at Pearl Harbor to service submarines and surface ships. The ship repair industry is a vital part of the Hawaii industrial base and economy. The special purpose revenue bonds will facilitate the construction of a new dry dock and solidify the ship repair industrial base in Hawaii.

Respectfully yours,

Iain S. Wood, President

Ship Repair Association of Hawaii

Page 1 of 1
Member Firms

Aerotek - Airgas Gaspro – AMP United - Anawati & Associates - BAE Hawaii Shipyards - C & S Services - CB Tech Service - Dresser-Rand - EMS Ice Epsilon Systems – Fortior Solutions - Hawaii Marine Cleaning - HSI-Electric Boat - HSI Mechanical, Inc. - IMIA, LLC. - Inspec Testing - Jo-Kell, Inc. Leeward Marine, Inc. - Marisco, LTD. - Oceaneering International, Inc. - Pacific Shipyards International - PCE Hawaii, LLC. - Penco - Phoenix International Q.E.D. Systems, Inc. - Regal Service Co. - Safway Services, LLC. – Signal – SureID – The American Equity Underwriters, Inc. Trident Maritime Systems TY Realty Hawaii - UTS Maritime Services - Wardlaw Maritime

TESTIMONY

FOR SB 985 - 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: Tuesday, February 5, 2019

TIME: 10:00 a.m.

PLACE: Conference Room 211

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.

SB-985

Submitted on: 2/2/2019 2:49:05 PM

Testimony for WAM on 2/5/2019 10:00:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
cheryl	Individual	Comments	No

Comments:

I understand that many local people are employed at the docks of Pearl Harbor. I just question why we are paying any monies at all for upkeep etc.? The Federal govt. has been remiss in keeping things updated in many areas. (Pearl Harbor, Red Hill) and we get left as the Hawaiian islands cleaning up after them. (ie Kahoolawe). Waiting to hear that we will be responsible or Pohakuloa and Schofield clean up as well????

SB-985

Submitted on: 2/2/2019 9:09:50 PM

Testimony for WAM on 2/5/2019 10:00:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Alan S. Hayashi	Individual	Support	Yes

Comments:

COMMITTEE ON WAYS AND MEANS

COMMITTEE ON WAYS AND MEANS

Chair Delacruz, Vice Chair Keith-Agaran, and members of the Committee

Thank you for the opportunity to testify. My name is Alan S. Hayashi, testifying as a concerned citizen, in STRONG SUPPORT of passage of this bill, SB985.

Unless legislative assistance is provided by the Hawaii State Legislature in this 2019 session, the Ship Repair industry, as a critical part of Hawaii's heavy industrial base, will start to disappear in 2023, with resulting loss of \$1.3B in revenue and about 900-1,000 jobs, per recent report submitted to DBEDT and the Hawaii State Legislature by the Ship Repair Association of Hawaii.

I urge your consideration and passage of this measure to save this critical sector of Hawaii's Ship Repair industry. Thank you for your consideration.

I will stand on my testimony, however, if any questions, I will be glad to address your concerns. ALOHA, Alan Hayashi