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Helping to keep Hawai'i  
clean, green, beautiful,  
livable and sustainable  
since 1912

February 5<sup>th</sup>, 2022

RE: Testimony in SUPPORT OF SB2537

Dear Senators,

The Outdoor Circle and its many statewide branches strongly support Senate Bill 2537 and companion House Bill 1995 regarding the amendment of the definition of “capital investment costs” to include “the planting of trees having an expected lifespan of at least fifteen years, including any infrastructure additions or improvements necessary to accommodate the trees.”

We applaud the introduction of this important change in the definition of capital investment costs as this will allow funds to become available for the critical need to include trees as part of a recognized and essential infrastructure on projects throughout the State of Hawaii.

The Outdoor Circle has for 110 years supported the proper planting, maintenance and protection of trees and this Senate Bill 2537 fills an important gap in current laws that will advance a greener and more livable Hawaii. This bill also fits in to the larger goals all of us share in canopy shade tree coverage, restoration of green spaces, and beautification of the state.

Thank you for your consideration to pass this bill.

Winston Welch  
Executive Director

DAVID Y. IGE  
GOVERNOR



CRAIG K. HIRAI  
DIRECTOR

GLORIA CHANG  
DEPUTY DIRECTOR

**STATE OF HAWAII**  
**DEPARTMENT OF BUDGET AND FINANCE**  
P.O. BOX 150  
HONOLULU, HAWAII 96810-0150

EMPLOYEES' RETIREMENT SYSTEM  
HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND  
OFFICE OF THE PUBLIC DEFENDER

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 AGRICULTURE AND ENVIRONMENT  
ON  
SENATE BILL NO. 2537

**February 7, 2022**  
**1:00 p.m.**  
**Room 224 and Videoconference**

RELATING TO CAPITAL IMPROVEMENTS

The Department of Budget and Finance offers comments on this bill.

Senate Bill No. 2735 amends Section 37-62, HRS, to amend the definition of "capital investment costs" to include the planting of trees having an expected lifespan of at least 15 years, including any infrastructure additions or improvements necessary to accommodate the trees.

As a large part of the State's capital investment costs are typically supported by tax-exempt general obligation (G.O.) bond funds, the State must comply with numerous federal tax requirements. Failure to comply with federal tax law can jeopardize the tax-exempt status of bonds and have significant adverse impact on bondholders.

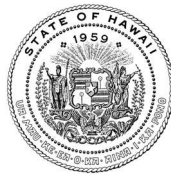
Accordingly, G.O. bond appropriations should only be used to pay for eligible capital expenditures relative to the acquisition, construction or improvement of property. G.O. bonds cannot be used to pay for costs such as operating costs, routine maintenance of buildings or equipment, payments made pursuant to service contracts, and any item of property which is not capitalizable.

Thus, tree planting in and of itself, should not be statutorily defined as a capital investment cost; instead, all projects should be reviewed and considered based on the scope of work and appropriateness as capital investment costs. Finance Memorandum No. 19-03, General Obligation Tax-Exempt Bonds, Use of Bond Proceeds, dated March 12, 2019, is attached for your reference.

Thank you for your consideration of our comments.

Attachment

DAVID Y. IGE  
GOVERNOR



RODERICK K. BECKER  
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  
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ADMINISTRATIVE AND RESEARCH OFFICE  
BUDGET, PROGRAM PLANNING AND  
MANAGEMENT DIVISION  
FINANCIAL ADMINISTRATION DIVISION  
OFFICE OF FEDERAL AWARDS MANAGEMENT (OFAM)

March 12, 2019

FINANCE MEMORANDUM

MEMO NO. 19-03

TO: All Department Heads

FROM: Roderick K. Becker   
Director of Finance

SUBJECT: General Obligation Tax-Exempt Bonds  
Use of Bond Proceeds

The Department of Budget and Finance (B&F) would like to remind all departments and agencies of the State of Hawai'i (State) of certain regulations related to the use of tax-exempt General Obligation (G.O.) bonds. G.O. bonds, which are appropriated by the Legislature, are typically used to finance capital improvement projects throughout the State. These appropriations are funded by the State through the issuance of tax-exempt G.O. bonds.

In order to preserve the tax-exemption on the bonds, the State is required to comply with numerous federal tax requirements. Failure to comply with federal tax law can jeopardize the tax-exempt status of the bonds and have significant adverse consequences on the bondholders. Accordingly, B&F would like to ensure that all departments and agencies utilize their G.O. bond appropriations to pay for only **eligible** capital expenditures relative to the acquisition, construction or improvement of property. Please be advised that G.O. bonds cannot be used to pay for costs such as operating costs, routine maintenance of buildings or equipment, payments made pursuant to service contracts, and any item of property which is not capitalizable.

To assist departments and agencies with their determination of eligible capital expenditures, B&F has prepared, with the assistance of the State's General Advice Counsel, a "Summary of Costs Eligible and Not Eligible for Payment with Tax-Exempt Bond Proceeds" (see Exhibit A). Departments and agencies are advised to contact B&F should questions arise regarding specific costs not addressed in Exhibit A.

Should you have any questions, your staff may call the Financial Administration Division's Administrator at 586-1612.

Attachment

**EXHIBIT A**  
**State of Hawaii**  
**General Obligation Tax-Exempt Bonds**

**Summary of Costs Eligible and Not Eligible for Payment with Tax-Exempt Bond Proceeds**

This summary is intended as a brief and general guide of costs eligible and not eligible for payment with tax-exempt bond proceeds. This summary focuses on general types of expenditures and does not address questions such as private use of financed property. **Users of this Summary should contact the Department of Budget and Finance if questions arise concerning specific costs that are not addressed below.**

**I. Capital Expenditures are Eligible for Tax-Exempt Financing**

A. In General: capital expenditures are any costs chargeable to the capital account of an asset, such as costs to acquire, construct, or improve land, buildings and equipment.

B. Examples of Capital Expenditures for the Acquisition of Property:

1. Bidding costs;
2. Invoice Cost;
3. Shipping fees and delivery costs;
4. Negotiating the terms of acquisition;
5. Preparing and reviewing the bid, offer, or purchase agreement;
6. Installation Costs;
7. Examining and evaluating title;
8. Securing permits;
9. Conveyance costs including sales and transfer taxes and title registration;
10. Broker's commissions;
11. Fees for architectural, geological, survey, engineering, environmental or inspection services;
12. Costs to acquire intangible real property interests, such as leaseholds or easements;
13. Amounts paid to renegotiate a lease, or, where the governmental unit or agency is the lessor, to terminate a lease of real or tangible personal property; and

C. Examples of Expenditures Paid to Construct or Improve Property:

1. In general: all direct or indirect costs that directly benefit or are incurred by reason of the construction or improvement;
2. Cost of removing a building system or building component as part of a replacement project;
3. Amounts paid for the betterment of property, e.g., enlargement, expansion, extension, or addition of major component or material increase in capacity or amounts paid to materially increase productivity, efficiency or output, or amelioration of material condition or defect existing prior to acquisition or arising during construction;
4. Amounts paid to restore damage to property;
5. Amounts paid to restore nonfunctional property to its ordinarily efficient operating condition or that result in the rebuilding of the property to a like-new condition;
6. Amounts paid to adapt property to a new or different use;
7. Specific Categories of Costs:
  - a. Architectural, engineering, design, surveying, soil testing and other site investigation and preparation;
  - b. Amounts paid under contracts for construction, renovation, improvement;
  - c. Direct labor costs of employees allocable to work related to the construction or improvement;
  - d. Indirect costs that directly benefit or are incurred by reason of the construction or improvement work, such as:
    - i. Indirect labor costs (including pension and other employee benefit expenses allocable to the work);
    - ii. Cost of renting or leasing property used in the performance of construction or improvement work;
    - iii. Bidding costs for solicitation of contracts; and
    - iv. Onsite storage and security costs

II. **Costs Not Eligible for Tax-Exempt Financing: Working Capital Costs.** Such costs include:

- A. All overhead and administrative costs identified with a department or function not generally allocable to construction or production, such as financial accounting, financial planning, insurance or risk management, environmental management, personnel policy;
- B. Operating costs, such as employee salaries and benefits, utilities, materials costs, rental costs, in each case not related to or incurred by reason of activities related to the acquisition, construction or improvement of real or personal property;

C. Routine maintenance of buildings or equipment, i.e. recurring activities expected to be performed as a result of use of the building or equipment in order to keep the property in its ordinary efficient operating condition. Routine maintenance includes inspection, cleaning, testing, replacement of worn parts with comparable and commercially available replacement parts;

D. Payments made pursuant to service contracts, such as IT service contracts;  
and

E. Any item of property which is not capitalizable.

**SB-2537**

Submitted on: 2/4/2022 3:18:25 PM

Testimony for AEN on 2/7/2022 1:00:00 PM

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Remote Testimony Requested</b>
Wai Lee	Testifying for Smart Trees Pacific	Support	No

Comments:

Friends of Hawaii's Urban Forest (FHUF) is a local non-profit based in Kailua, Oahu. FHUF has been working in Urban and Community Forest since 1992. Trees are one of the essential capital assets in our State, and their value appreciates over time. If well cared for, they can live well beyond 15 years this measure requires. For example, the Mahogany trees planted in Kaimuki are more than 100 years old.

FHUF strongly supports this bill and the planting of trees as a capital investment.

Sincerely Yours

Wai Lee

Executive Director





Testimony before the

SENATE COMMITTEE ON AGRICULTURE AND ENVIRONMENT

Monday, February 7, 2022 (1:00 pm)

**RE: SB2537 RELATING TO CAPITAL IMPROVEMENTS.**

Chair Gabbard, Vice Chair Nishihara, Members of the Committee on Agriculture and Environment:

Trees for Honolulu's Future (TFHF) is a nonprofit organization with a vision for a tree-filled island that preserves and enhances our quality of life, especially in the face of climate change.

We strongly support the above-referenced Bill, which adds trees that have an expected lifespan of over 15 years as part of the definition of capital improvements. Trees meet the definition of capital improvements under pertinent accounting rules as "infrastructure".

#### WHAT'S THE PROBLEM?

Trees for Honolulu's Future has run into situations in the past when civil servants have refused to recognize that trees installation/planting are eligible for capital funding as infrastructure, having long lives and being fixed in place. Thus, the need for clarification in the law.

#### WHY IS THIS IMPORTANT?

By making this change personnel in all state departments and political subdivisions that deal with infrastructure will understand that trees are just as much infrastructure as roads, storm water drainage systems, and the like. People, and the environment, will benefit in the process. The Legislature will arm the executive branch/counties to treat trees the same as any other kind of infrastructure. You, as legislators, will articulate not only policy, but a mind shift. "Green" can be infrastructure as much as anything "gray".

#### PROPOSED STATUTE IS CONSISTENT WITH REGULATORY BODIES

The Governmental Accounting Standards Board (GASB) standards define "Infrastructure" as assets that have "*long lives and are usually stationary. Examples are roads, bridges, tunnels, sewer systems, and lighting systems.*"<sup>1</sup> Trees meet this test -- they are stationary and, when installed correctly, have long lives.

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<sup>1</sup> See: [https://www.sage.com/na/~/media/site/Sage%20Fixed%20Assets/docs/GASB\\_Accounting.pdf](https://www.sage.com/na/~/media/site/Sage%20Fixed%20Assets/docs/GASB_Accounting.pdf)

**HONOLULU is HOT TREES are COOL**

Visit us: [www.TreesForHonolulu.org](http://www.TreesForHonolulu.org) Contact us: [info@TreesForHonolulu.org](mailto:info@TreesForHonolulu.org) Voice/Fax/Text: 808-707-6353

P.O. Box 12051, Honolulu, Hawaii 96828

Internally, State Department of Budget and Finance guidelines state capital projects usually have a lifespan of over 15 years. So again, trees that are designed to be permanent, qualify for CIP as a MOF. TFHF simply wants the Legislature to be explicit because there is a lack of consistency with current operating practice to accept CIP as an acceptable means of funding tree installations. We are not mandating tree planting be paid through capital funds, only that the option to do so is available.

In closing, we hear a lot about the need to take action on climate change and build resilience. Trees aren't the only solution, but they are one of many steps we can take today to have a positive impact today. Trees create multiple benefits well documented by research. Following are just a few:

- Trees create shade and use evapotranspiration to lower temperature.
- Trees recharge groundwater and decrease surface runoff protecting our reefs.
- Trees trap pollutants and store CO2.
- Trees calm traffic.
- Trees make human, and animals, happier and healthier.

Sadly though, Honolulu has been losing urban tree canopy over the past years. The time to turn this around was 20 years ago, the next best time is today.

We urge this Committee to pass this Bill and send it on to the Committee on Ways and Means.

Thank you.

A handwritten signature in blue ink, appearing to read "Daniel Dinell", is displayed on a light blue rectangular background.

Daniel Dinell, President  
Trees for Honolulu's Future

**SB-2537**

Submitted on: 2/4/2022 4:49:18 PM

Testimony for AEN on 2/7/2022 1:00:00 PM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
John M. Knox	Individual	Support	No

Comments:

Aloha Chair Gabbard, Vice Chair Nishihara and Committee Members --

Writing in support of SB2537, I am John Knox. I write as a citizen of Waimanalo, but should note I am also a socio-economic research consultant (principal of John M. Knox & Associates, Inc.) and member of the Board of Directors of Trees for Honolulu's Future.

I'm in my mid-70s now. When I was in my 50s, I liked to wear blue jeans to work. That's been out of the question for some years now, at least in summer and fall, due to increasing heat and to the greater vulnerability that seniors such as myself have in regard to heat stroke. Both our residents and our visitors will be increasingly exposed to rising temperatures in the coming years. We need more shade and canopy. The right shade trees, planted in the right locations and with the right care, will increasingly need to be considered as basic protective infrastructure if only for that reason ... though of course trees also bring aesthetic, carbon reduction, and storm runoff mitigation benefits.

When I was on the State Tax Review Commission, I had to become at least a little familiar with the U.S. GAAP (Generally Accepted Accounting Principles). Although trees may not have previously been considered "infrastructure" here, it is important to note that there is nothing in GAAP that would prohibit that -- so long as the infrastructure in question has a lifespan of 15 years or more, which is certainly true of properly tended trees. Trees will generate annual maintenance costs, but so do highways, sewers, etc.

Socio-economic impact analysis, my field for 40+ years, always calls for comparing at least two futures -- minimally, one in which a proposed action is approved and occurs, and one in which it doesn't. If we **don't** systematically start planting more shade trees along residential streets, in parks and school grounds, and in commercial areas in the short term, we will face a rush of demand for the same thing in the long term. Let's get started now.

Mahalo, John Knox, 41-858 Laumilo St. Waimanalo HI 96795 johnmknox808@gmail.com