<u>SPECIAL PURPOSE REVENUE BONDS – FREQUENTLY ASKED QUESTIONS</u>

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 <u>not</u> grants or subsidies to borrowers;
- are <u>funded by private investors</u>, not by the State of Hawaii;
- <u>are</u> loans to creditworthy borrowers that must be repaid promptly and with interest;
- <u>do not</u> 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 <u>funded by private investors</u> seeking tax-exempt interest payments while bearing risk of nonpayment (e.g. loss of their investment); and
- <u>do not divert public funds</u> 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.