

EXECUTIVE CHAMBERS

HONOLULU

July 10, 2006

STATEMENT OF OBJECTIONS TO HOUSE BILL NO. 2878

Honorable Members
Twenty-Third Legislature
State of Hawaii

Pursuant to Section 16 of Article III of the Constitution of the State of Hawaii, I am returning herewith, without my approval, House Bill No. 2878, entitled "A Bill for an Act Relating to Special Purpose Revenue Bonds to Assist Tradewinds Forest Products, LLC."

The purpose of this bill is to authorize the issuance of up to \$25,000,000 in special purpose revenue bonds to assist Tradewinds Forest Products, LLC ("Tradewinds"), a Delaware limited liability company, in the establishment of a veneer mill and associated cogeneration plant (the "project").

This bill is objectionable because there are serious questions as to whether issuance of the contemplated special purpose revenue bonds would serve a public purpose and whether financing of the project is an appropriate use of such bonds. First, based on an initial review, it is doubtful that special purpose revenue bonds could be issued for this project since most of the \$30,000,000 project does not appear to qualify for special purpose revenue bond financing on a federal tax-exempt basis. Absent a detailed legal analysis of the engineering schematics and components of the project by bond counsel, federal tax-exempt financing for the project likely would be limited to \$10,000,000 under section 144 of the Internal Revenue Code.

Generally, special purpose revenue bonds are marketable only if they can be issued on a federal tax-exempt basis. Absent sufficient special purpose revenue bond financing, it is unclear whether the project would produce the local products and jobs anticipated in the bill. Tradewinds has had an agreement for the

STATEMENT OF OBJECTIONS
HOUSE BILL NO. 2878
Page 2

past five years with the State to build a timber processing plant and to harvest eucalyptus and maple planted in the Waieka Forest Reserve. However, due to difficulties in securing financing, the project has been delayed and has not produced the local products and jobs initially anticipated.

Unfortunately, it appears the proposed project has not been adequately explained to the community such that residents of the area have raised questions and concerns about the potential impacts. Additionally, questions have been raised as to the appropriateness of using publicly issued financing for a project that proposes to use the public's resources for private gain. Until these concerns are fully and fairly addressed, the State should not be asked to issue bonds for this proposal.

For the foregoing reasons, I am returning House Bill No. 2878 without my approval.

Respectfully,

A handwritten signature in black ink, appearing to read 'L. Lingle', written in a cursive style.

LINDA LINGLE
Governor of Hawaii