



PROMOTING CHOICE AND PRESERVING INDEPENDENCE SINCE 1970

Why We Need Special Purpose Revenue Bonds for Private Schools in Hawaii

A special need presently exists within the private school community. Challenging economic conditions in Hawaii have created difficulties for schools to make ends meet on an operational basis. “Deferred maintenance” has become the rule regarding capital improvement to repair existing facilities. For this reason, independent schools are realizing that “Special Purpose Revenue Bonds,” as they are called here in Hawaii, could be an effective method to finance major capital expansion or renovation projects.

Conventional methods of raising capital funds are presently limited and may not improve in the near future. Schools, public and private, must maintain the buildings and facilities on their campuses. During the 1990’s, significant funds were expended specifically to renovate school buildings to comply with the Americans with Disabilities Act. This effort, along with demands for other renovation and construction, requires substantial funding.

Traditionally, independent schools have used a combination of capital funds drives, tuition increases, and endowment funds to finance renovation and construction. In Hawaii’s weak economy, however, funds from these sources are limited. Faced with similar situations, a number of independent schools on the mainland began using long-term debt as a vehicle for financing construction and maintenance. In many states, independent schools were fortunate to have the option of using tax-exempt debt for this financing. Tax-exempt financing is attractive because it can save schools a substantial amount on long-term debt. In Hawaii, however, state laws do not permit private schools to use tax-exempt bonds. While private schools in Hawaii are free to use other long-term debt to finance renovation and construction, the costs are considerably higher.

As in other states, school infrastructure, whether public or private, serves many public purposes in Hawaii. Allowing private schools to use the proceeds of tax-exempt bonds in the form of Special Purpose Revenue Bonds will permit these institutions to maintain and improve that infrastructure. Members of the public will benefit by the authorization of SPRBs for private schools since a healthy private school adds immeasurably to the vitality of Hawaii’s economic, social and cultural life. The continued viability of these schools depends on a sound infrastructure that can be supported through a low cost financing vehicle provided by SPRBs. Because Hawaii’s private schools educate 35,000 students who otherwise would stretch the resources of the state’s public schools, the viability of private schools is an important interest to the state.

Additionally, from an economic standpoint, allowing the use of Special Purpose Revenue Bonds by private schools could have immense benefits for the state. By lowering the cost of long-term financing for capital improvement projects, the approval of the use of SPRBs by private schools may encourage more construction by these schools, or may hasten the beginning of renovation and construction jobs that are already planned. Considering the backlog of work due to deferred maintenance and the demand for improved facilities, the private school community has the potential to make a substantial and ongoing contribution to the revitalization of Hawaii's economy.

While many schools may be uneasy about the prospect of using long-term debt to finance capital improvements, mainland private schools that have been successful in the use of tax-exempt bonds demonstrate that such financing is a viable option for even small schools. Independent schools on the mainland that have applied to *Moody's* (the leading provider of independent credit ratings, research, and financial information to the capital markets) have generally received fairly strong credit ratings (*Moody's Public Finance, Perspective on Higher Education* – December 5, 1994). The high demand for private education in Hawaii, coupled with other attractive credit characteristics, means that independent schools here should receive favorable ratings as well.

Special Purpose Revenue Bonds provide a unique opportunity for independent schools in Hawaii to fund capital improvements with long-term debt at a low cost. Legislation to permit independent schools to use SPRBs will allow many schools to complete planned construction and renovations without threatening the school's endowment. If used carefully, SPRBs can be an effective, low-cost method for capital improvements.

Robert M. Witt, January 2000