



TOD Infrastructure Finance and Delivery Strategy

Hawai'i Business Roundtable

January 12, 2024



HR&A



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& ASSOCIATES, INC.

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Agenda

1. Introductions
2. Study Recap and Barriers to TOD Infrastructure Funding and Delivery
3. Policy Recommendations and Discussion
4. Next Steps

Introduction to Consultant Team



HR&A Advisors, Inc. (HR&A) is an employee-owned company advising visionary clients on how to increase opportunity and advance quality of life in cities.

We believe in creating vital places, building more equitable and resilient communities, and improving people's lives.



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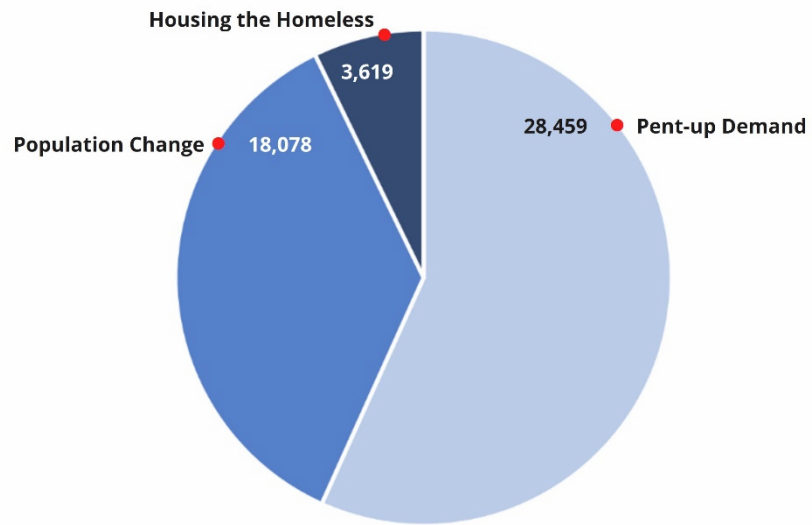


Study Recap and Barriers to TOD Infrastructure Funding and Delivery

Housing Crisis

50,156

new homes needed
statewide by 2025



2020-2025 Housing Units Needed



Housing Initiatives

One strategy the State and Counties are using to combat the housing crisis is to promote and **build affordable housing in areas that are planned at densities that support rail or bus transit**—especially near rail stations and around bus transit hubs.



But before housing can be built...

...infrastructure – water, sewer, wastewater, and roads – **needs to be in place.** Infrastructure delays and costs limit and delay housing construction and increase the cost of building new homes – especially affordable ones.

The total cost of infrastructure **cannot be absorbed by private development alone,** especially because much of the cost is upfront.

Creative Funding and Financing Tools

crucial to get infrastructure online quickly
to move projects forward



New Aloha Stadium Entertainment District



Mayor Wright Housing

Benefits of Housing Infrastructure Investment

Financing tools that pay for infrastructure more quickly, fairly, and predictably will...

- Expedite housing construction, create new affordable places to live close to jobs and transit, **enhance workforce retention**
- Create **new jobs and customers** (through infrastructure construction, as well as new retail and office space)
- **Expand the tax base** for public services

Study Timeline

PHASE 1

Jun – Oct '22

- Review and Summary of Existing Data

PHASE 2

Nov '22 – Mar '23

- Shortlist of Funding, Financing, and Delivery Options

PHASE 3

Mar – Aug '23

- Financial Analysis of TOD Infrastructure Funding and Financing Options

PHASE 4

Sep – Dec '23

- Recommendations and Implementation Strategy

PHASE 5

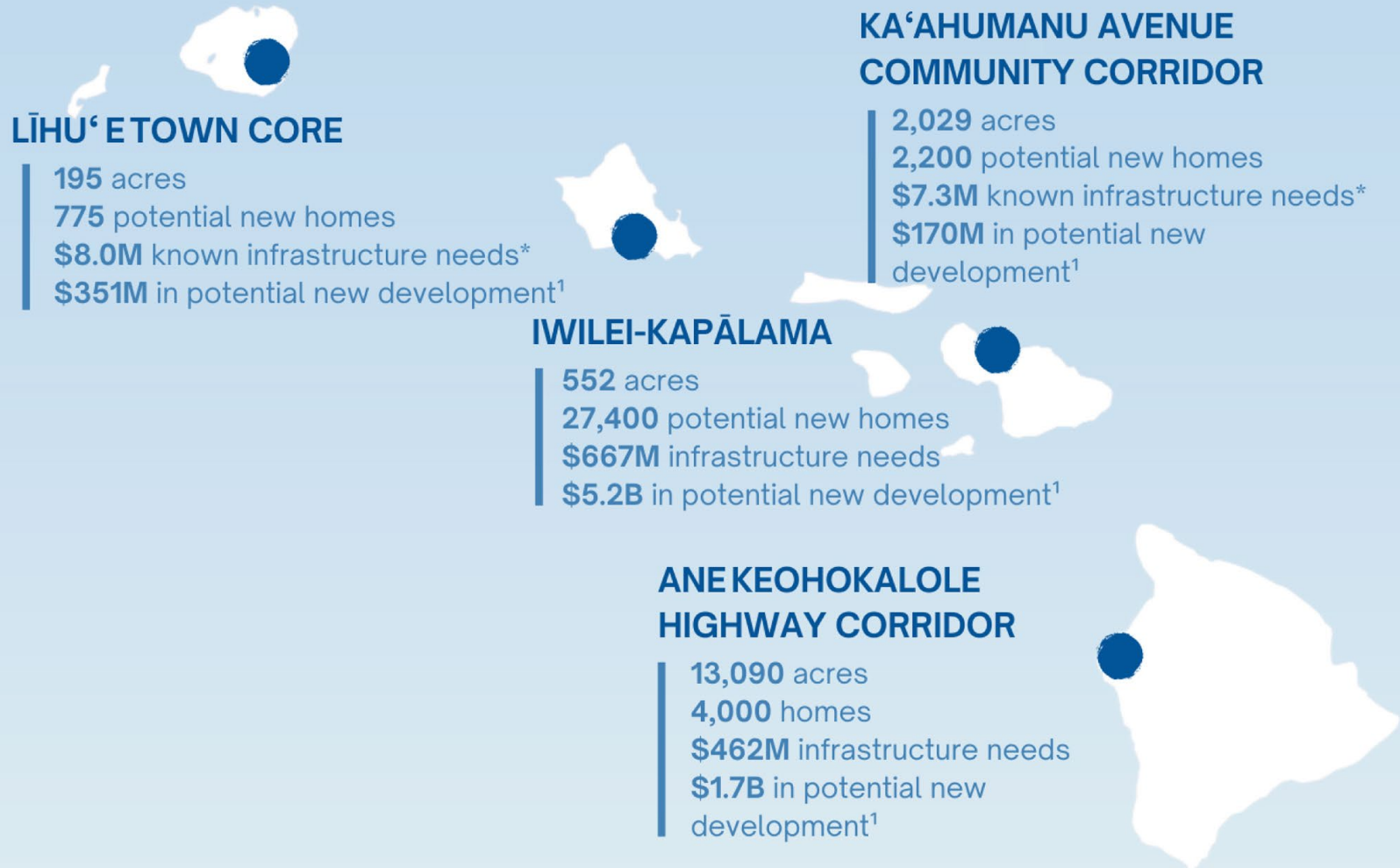
Jan – Aug '24

- Stakeholder Engagement

Stakeholder Engagement

(TOD Council, County Permitted Action Groups, Project Advisory Group)

Four TOD Pilot Areas Statewide...>\$7.2B value



*Not all areas had an infrastructure master plan, so actual infrastructure costs are likely far higher.

1. Discount rate of 3%.

Revenues and Financing Capacity, by Instrument

Instrument <i>(revenues for 2025-2070, unless noted)</i>	Iwilei-Kapālama	Ka‘ahumanu Ave. Community Corridor	Līhu‘e Town Core	Ane K. Highway Corridor
TIF Financing Capacity <i>(2030/40 issuance, net of financing & admin costs)</i>	\$48M / \$77M	\$40M / \$87M	\$15M / \$20M	\$36M / \$58M
CFD/SID Financing Capacity <i>(2030/40 issuance, net of financing & admin costs)</i>	\$6.0M / \$6.0M	N/A	N/A	\$4.4M / \$4.7M
Business Improvement District (BID)	N/A	\$74M	\$27M	N/A
Capacity of Absorption of One-Time Fees <i>For e.g., impact fees; developer fees.</i>	\$126M	N/A	N/A	\$46M
0.5% GET Surcharge on Construction & Retail Spending	\$10M	\$3M	\$11M	\$34M
3% TAT Surcharge on Hotel Spending	N/A	N/A	N/A	\$18M

Barriers to TOD Infrastructure

1. **Chicken-and-egg problem:** Counties need TOD infrastructure to build affordable housing, but also need proceeds from market rate development to help fund TOD infrastructure.
2. Counties have a **limited set of tools** to fund and expedite TOD infrastructure.
3. **Existing tools like CIP and DURF, while valuable, do not have the capacity to meet all TOD infrastructure needs, and lack consistent and reliable funding.**
4. TOD infrastructure funding tools are **limited by both market conditions and State and County policies.**

Response to Barriers to TOD Infrastructure

Based on the analysis of the specific TOD Pilot Areas, the Consultant Team was able to develop County- and State-wide policy recommendations to enhance the funding and delivery of TOD infrastructure in the TOD Pilot Areas and elsewhere in each County.



Policy Recommendations and Discussion

Recommendations

5

State-level Actions

5

County-level Actions

Recommendations

High-Level Recommendations

Specific Recs.

Continue State-County collaboration via existing resources like CIP.

STATE-LEVEL ACTIONS

State authorization of **new funding tools** for Counties.

- Additional Tourism-related Surcharges
- Tax Increment Financing
- Additional GET Surcharge

State **resources** to supplement County ones.

- Conveyance tax

State creation of **new dedicated funding sources** for TOD infrastructure.

- TOD Infra. Revolving Fund

COUNTY-LEVEL ACTIONS

Change County policies to **enhance existing tools**.

- O‘ahu RPT Exemption
- Impact fees
- Progressive RPT

County actions to **help improve market conditions** for TOD infra. funding tools.

- Community Facilities Districts
- Business Improvement Districts



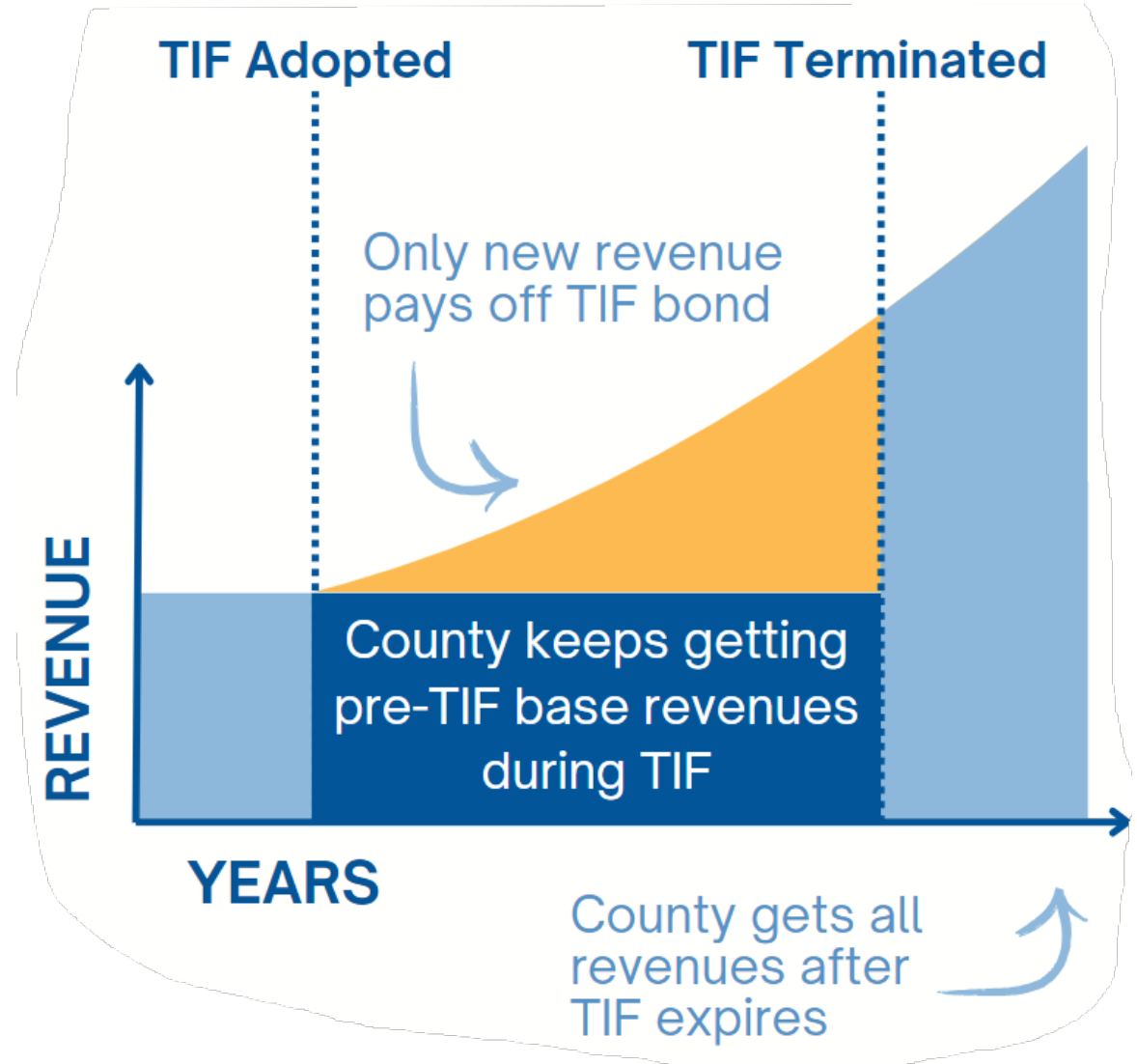
1. Authorize TIF to potentially fund TOD infrastructure in priority areas.

What is Tax Increment Financing (TIF)?

TIF is Not a New Tax

Instead, TIF is a way for local government to **unlock money**, using incremental tax revenue from a designated area to support bond financing that funds infrastructure in that area.

Those public improvements **allow new real estate development**, often including housing, resulting in increased property value and property tax revenues that **fund the TIF and repays upfront financing** (a "TIF Bond").



TIF: Issues and Recommendations

Potential Concerns

TIF bonds not authorized, count towards County debt limit

TIF is not new County revenue

Use of TIF where it is not needed

Potential risks to County fiscal health

TIF takes a long time to generate revenue

Recommendations

Const. Amend. authorizing TIF, exclusion from debt limit

Allow contribution of State revenues plus County RPT

“But-for” requirement for TIF

“Net fiscal impact finding” requirement for TIF

Overlay a CFD over TIF for short-term financing

Opportunities with TIF

Case Study: Lincoln Yards, Chicago, IL

Key Takeaway: TIF can enable cost-recovery through a TIF-backed “developer loan.”

The Chicago City Council approved in 2019 a \$900-million TIF measure, which included a \$487-million reimbursement agreement with developer Sterling Bay to front-fund the construction costs of numerous public projects, including three new bridges; multiple roadways and river walls; a trail extension; and a reconfigured roadway intersection that served their 54-acre Lincoln Yards mixed-use development, which includes 1,200 affordable units, 21 acres of park space, and nearly \$150 million in associated development fees for additional public housing and public improvements. The project also included approximately \$300 million in public infrastructure improvements to be constructed by Sterling Bay that were not eligible for TIF reimbursements.



Opportunities with TIF

Case Study: The Ion (Houston, TX)

Key Takeaway: TIF can enable cost-recovery through a TIF-backed “developer loan.”

The Ion is a tech industry incubator developed by Rice University. In 2021, the Houston Midtown Redevelopment Authority approved a \$65M TIF agreement.

Rice University would proceed with public infrastructure improvements (sidewalks, street repairs, plazas, parking), to be repaid with incremental property tax revenues.





2. Expand the local infrastructure funding capacity of the conveyance tax

What is the Conveyance Tax?

The State collects a conveyance tax on **transactions or sales of real property**. It has a progressive structure, with differentiated rates.

OPSD has **proposed a bill** that would:

- Increase the conveyance tax for high-value properties, and
- Exempt individual owners without an interest in any other real property.

A portion of conveyance tax revenues would continue to be dedicated to land conservation and rental housing.



Conveyance Tax: What are the critical issues?

Outdated Tax Structure

The conveyance tax structure was last updated in 2005, when property values were much lower in the State.

Fixed Dollar Caps on Revolving Fund Contributions

Without the caps, contributions to the Land Conservation Fund and Rental Housing Revolving Fund in 2022 would have been \$13.4 million and \$56 million higher, respectively.

No TOD Infrastructure Investment

No portion of conveyance tax revenues is earmarked for TOD infrastructure.

Conveyance Tax: Recommendations

Amend Tax Structure

Increase tax rates for high-value properties and introduce new progressive rate tiers for properties valued above \$6 million.

Exemptions

For individuals who are owner- or renter-occupants and have no ownership interest in any other real property.

Remove Fixed Dollar Caps

Do not impose fixed dollar caps on new conveyance tax revenue dedicated to TOD Infrastructure funding.

Invest in TOD Infra.

Dedicate an additional share of revenues collected to TOD infrastructure, either via DURF or a new statewide TOD Infrastructure Revolving Fund.

An aerial photograph of an industrial district, likely in Honolulu, Hawaii. The foreground and middle ground are dominated by numerous large, rectangular industrial buildings with flat roofs, some in shades of blue and grey. A network of roads and parking lots is visible between the buildings. In the background, a dense urban area transitions into a range of green mountains under a clear blue sky with a few wispy clouds. The overall scene depicts a major industrial and commercial hub.

3. Expand the Capacity of GET and Tourism-Related Surcharges to Fund Local Infrastructure, particularly on the Neighbor Islands

Add'l Surcharges: Critical issues

Limited County Bonding Capacity

State law sunsets the GET surcharge in 2030, limiting County bonding capacity.

Caps on Surcharge Rates

State law caps surcharges at 0.5% for GET and 3% for TAT, limiting Counties' flexibility to obtain additional resources for capital improvements.

No County Motor Vehicle Rental Surcharge

The State collects a tax on motor vehicle rentals that falls mostly on non-residents, but Counties are not authorized to collect a surcharge on this tax.

Add'l Surcharges: Recommendations

Remove Sunset on GET Surcharge

Allow Counties to collect GET surcharge indefinitely, not just until 2030, enhancing their bonding capacity.

Increase Surcharge Caps

Allow Counties more flexibility to determine GET and TAT surcharge rates.

Allow County Motor Vehicle Rental Surcharge

And direct a portion of or all additional revenue to affordable housing-enabling and transportation infrastructure.

Flexible Use of Revenues

Allow surcharge revenues to be used for capital projects for all kinds of infrastructure (not just housing and transportation) and to subsidize development site improvements.

An aerial photograph of a large industrial district. The foreground and middle ground are filled with numerous large, rectangular industrial buildings with flat roofs, mostly in shades of grey and blue. A prominent, straight street runs vertically through the center of the district. In the background, a range of mountains is visible under a clear blue sky with a few wispy clouds. The overall scene depicts a dense, organized industrial zone.

4. Create a TOD Infrastructure Revolving Fund

TOD Infra. Fund: What are the critical issues?

No Statewide TOD Fund with Dedicated Revenue Source

- Dwelling Unit Revolving Fund (DURF)
- DURF Infrastructure Subaccount
- Rental Housing Revolving Fund
- Hawaii Green Infra. Auth.
- Hawaii Community Dev. Auth. (HCDA)
- Drinking Water State Revolving Fund
- Clean Water State Revolving Fund

Room for Further County Input

- Existing funds/mechanisms at the State level are **highly centralized**.
- **Counties are not directly engaged** in prioritization of funds.
- Counties can provide **valuable input** on where infrastructure investments can make greatest impact.

TOD Infra. Fund: Recommendations

Create TOD Infra. Revolv. Fund

To provide low-interest loans and grants for infrastructure, affordable housing, and mixed-use development in TOD areas.

Dedicated Revenue Source

To capitalize the fund, such as a portion of conveyance tax, GET, and/or TAT revenues.

County Representation

County-appointed representation on the TOD Infrastructure Fund's board.

CASE STUDY

Bay Area Housing Finance Authority

- Governed by the San Francisco Bay Area's Metropolitan Planning Org.
- Supports affordable housing production and preservation, and tenant protection
- Proceeds from any revenue generated:
 - 80% returned to Counties
 - 20% used regionwide

Takeaway: A potential revenue sharing and governance model for Hawai'i's Counties.



5. Encourage the use of CFDs to finance housing-enabling infrastructure

CFDs: What are the critical issues?

Lack of Implementation

While authorized Statewide, only two CFDs have been implemented within the State.

Use of CFDs for Infill Projects

Existing property owners are hesitant to pay additional land-related taxes (e.g., attempt to establish a CFD in Kahana Bay, Maui).

Use of CFDs for Greenfield Projects

- Limited middle-income development for which CFD is both feasible and convenient
- Uncertainty over entitlements and infrastructure requirements
- Lack of areawide infrastructure that enables site infrastructure funded by CFDs
- Private sector expectation that public sector pays for part of site infrastructure

CFDs: Recommendations

Identify Priority Infrastructure

Which is a pre-requisite for specific site infrastructure typically funded by CFDs.

Enhance County Capacity

Hire and/or train County staff to manage CFD formation process and oversight.

Incentives for CFD

Where appropriate, require CFD formation as pre-requisite for entitlements and rezoning.

CFD + TIF Overlay

Where appropriate, overlay a CFD on TIF to raise short-term financing while TIF revenues ramp up.



6. Other recommendations

Other Recommendations

1. Study the potential recalibration of the **mixed-income residential RPT exemption in O‘ahu**
2. Implementation of **impact fees**
3. Study the potential housing market and fiscal impacts of a **more progressive RPT scheme for O‘ahu**
4. **Create Business Improvement Districts (BIDs)** to enhance market conditions

Recommendations

High-Level Recommendations

Specific Recs.

Continue **State-County** collaboration via existing resources like CIP.

STATE-LEVEL ACTIONS

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Next Steps

Implementation: Short-Term Actions

1. Prepare joint State-County Infrastructure Master Plans and CIP Plans for the Pilot Areas.
2. Support efforts to pass State bills that can increase funds for TOD infrastructure (TIF, conveyance tax, TOD Fund, and GET and tourism-related surcharges).
3. Take steps to improve market conditions in priority investment areas, by enabling actions for CFDs or creating BIDs.
4. Study countywide impact fee programs.

Next Steps

OPSD needs the business community's help to get state legislation passed on Tax Increment Financing and the conveyance tax.

Let your legislators know you support improving infrastructure financing, and we hope you will help fund and lead a “get out the vote” campaign to pass a constitutional amendment on TIF.



Mahalo!

TOD Infrastructure Finance and Delivery Strategy

Download the InfraFin Strategy at:

https://files.hawaii.gov/dbedt/op/lud/Reports/TOD_InfraFin_Strategy_20231221.pdf

For questions or to discuss implementation, contact:

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