

# TOD Infrastructure Financing & Delivery Strategy



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Amitabh joined HR&A in 2013 and has over two decades of international experience in real estate and economic development. Previously, he was a Vice President and Regional Director for AECOM in India, where he led a multidisciplinary team of economists, planners, and designers to deliver a range of complex urban development, infrastructure, and tourism related projects in Asia and the Middle East. Prior to this, he led AECOM's economics practice in the US-West region and served as the global practice leader for its economic planning and real estate market sector. Amitabh brings a combination of wide international experience with a deep understanding of planning, policy, and market issues pertaining to the Western US and California. He has led a wide range of studies in the area of land use economics, real estate development, economic development strategy, industrial development and tourism development for numerous public and private sector clients. He holds Masters of Urban Planning and Building Science from the University of Southern California and a Bachelor of Architecture from New Delhi School of Planning and Architecture.





# TOD Infrastructure Finance and Delivery Strategy

**TOD Council**  
January 19, 2024



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# Agenda

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



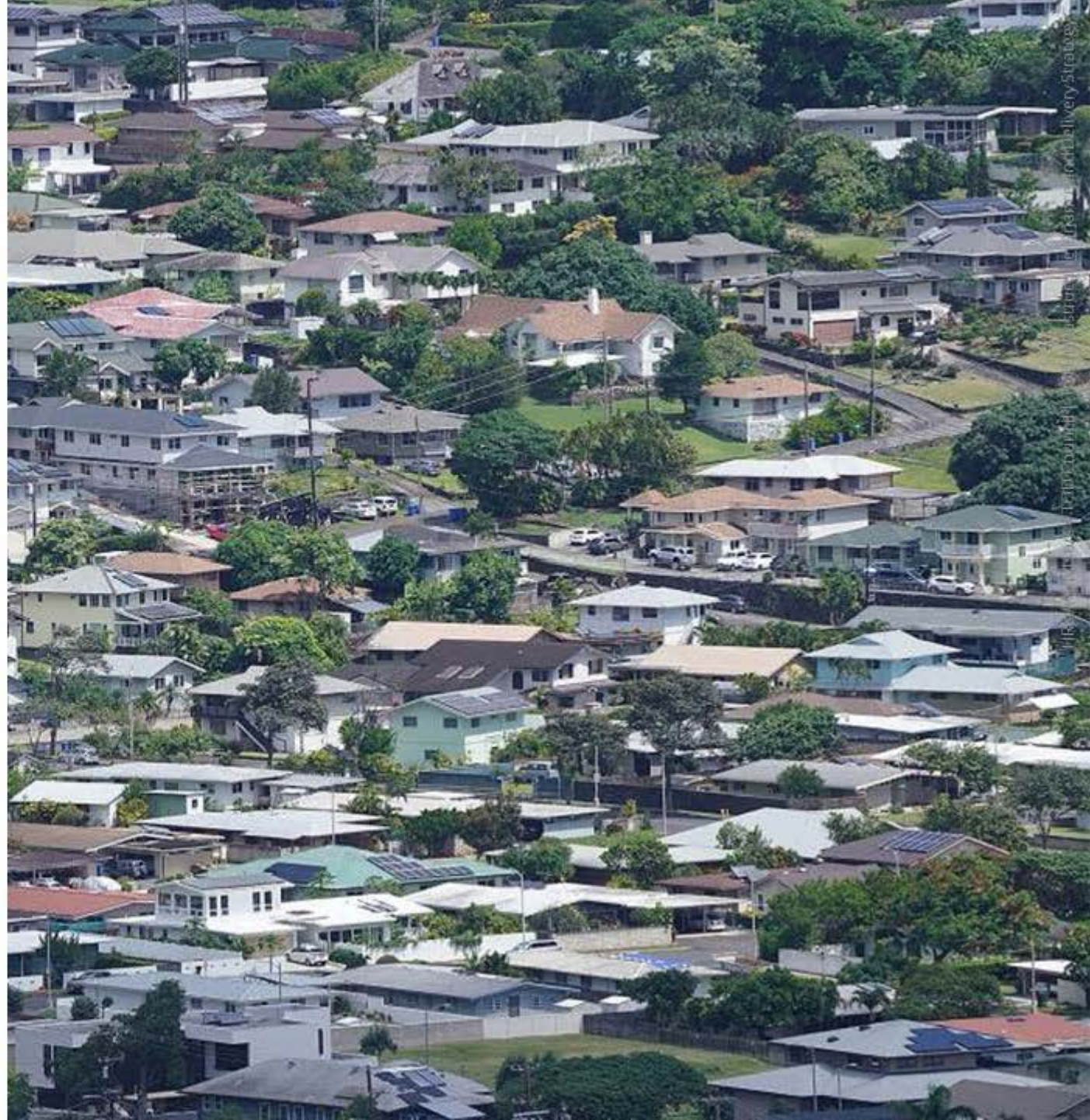
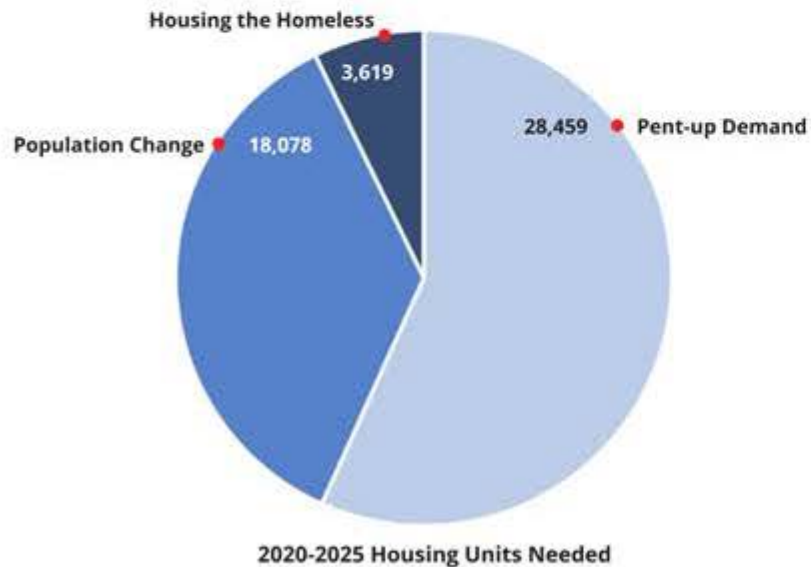


# **Study Recap and Barriers to TOD Infrastructure Funding and Delivery**



# Housing Crisis

**50,156**  
new homes needed  
statewide by 2025





# Housing Initiatives

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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...

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**...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

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## **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

# Funding and Direction from Legislature

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## Legislature provided funding to study:

- Alternative infrastructure financing tools, cost recovery mechanisms to **recapture State infrastructure investment**
- Specific **financing, cost recovery, and value capture tools** to pilot at TOD sites in each County
- **Barriers** to and **strategies** for implementing those tools
- **Policy recommendations**, including legislation

*Funding per Budget Proviso in Act 88, SLH 2021, Sec. 39*



# 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

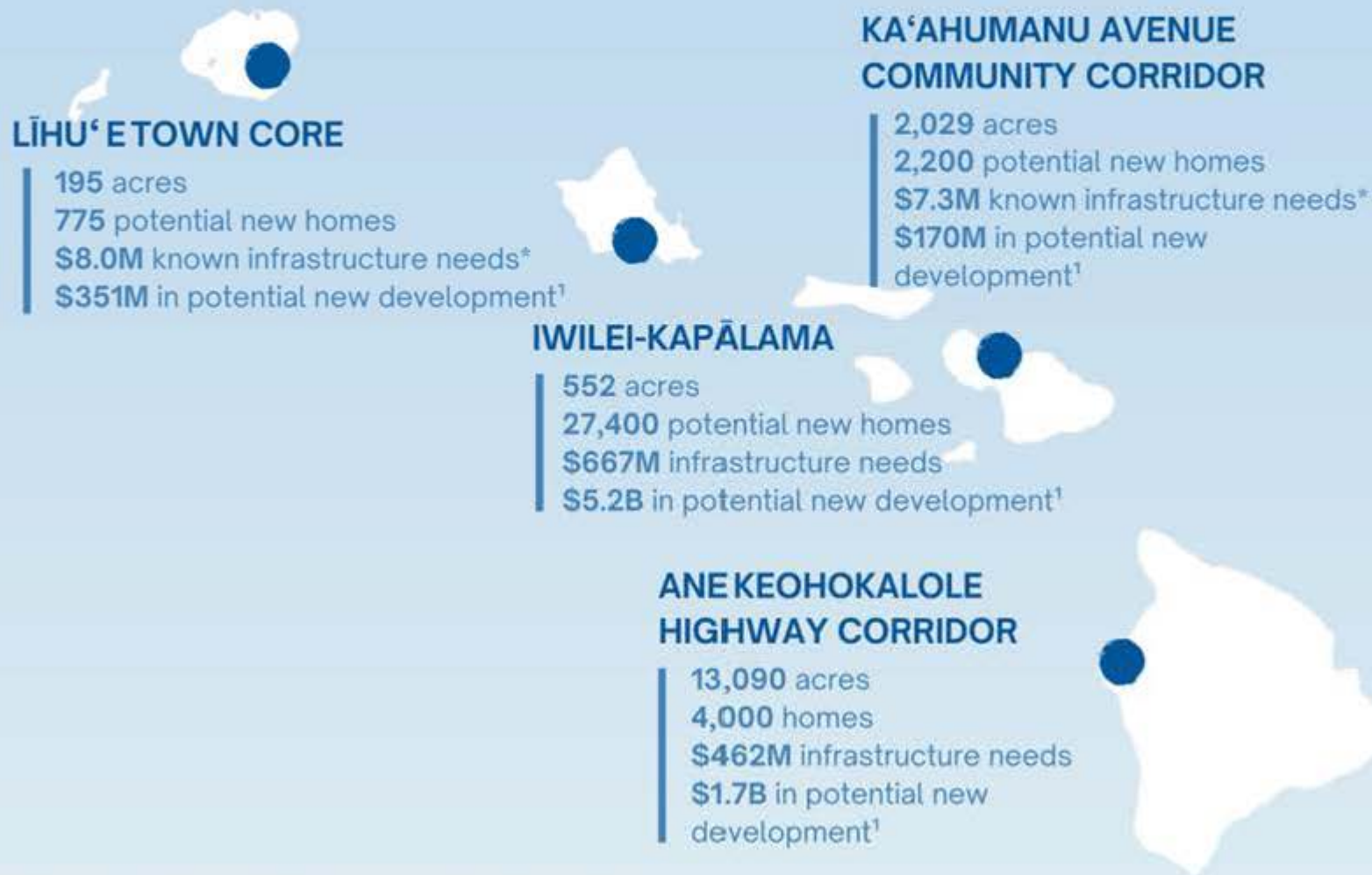
Jan – Aug '24

- Stakeholder Engagement

### Stakeholder Engagement

(TOD Council, County Permitted Interaction 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 &amp; admin costs)</i>	\$48M / \$77M	\$40M / \$87M	\$15M / \$20M	\$36M / \$58M
CFD/SID Financing Capacity <i>(2030/40 issuance, net of financing &amp; 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

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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

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Based on the analysis of the four TOD Pilot Areas, the Consultant Team developed **County- and State-wide policy recommendations** to enhance funding and delivery of TOD infrastructure in the TOD Pilot Areas and elsewhere in each County.

An aerial photograph of a vast industrial park or warehouse district. The foreground and middle ground are filled with numerous large, rectangular industrial buildings with flat roofs, mostly in shades of grey, blue, and brown. A network of roads and parking lots with some vehicles is visible between the buildings. In the background, a range of rugged, hazy mountains stretches across the horizon under a clear blue sky with a few wispy clouds. The overall scene depicts a major industrial hub.

# **Policy Recommendations and Discussion**



# Recommendations

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State-level Actions

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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





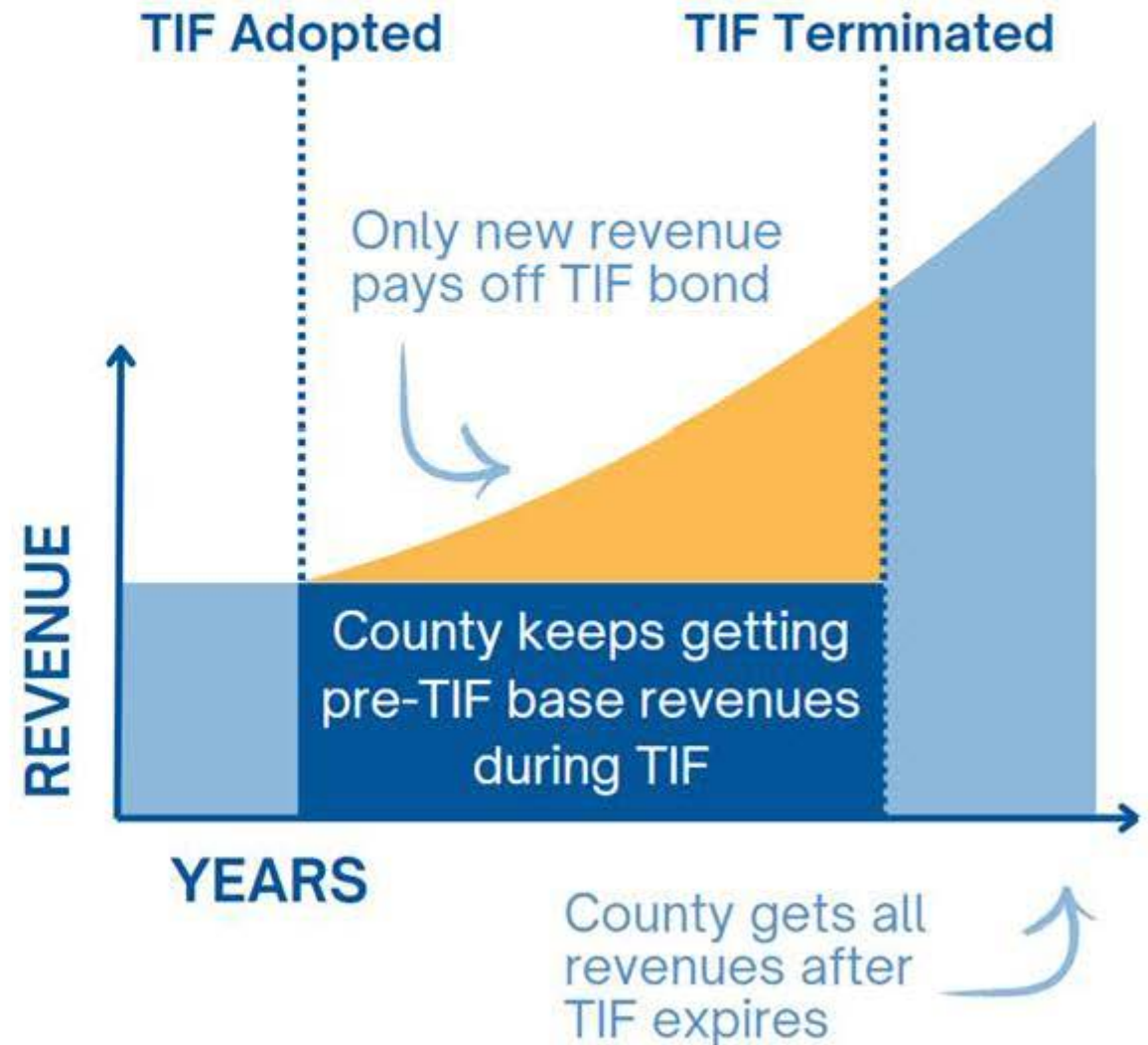
**1. Authorize TIF to potentially fund TOD infrastructure in priority areas.**

# 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



## **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: Recommendations

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## **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 a city, likely Honolulu, showing a dense urban area with numerous buildings and streets. In the background, a range of mountains is visible under a clear sky. The text is overlaid on the center of the image.

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



# Addt'l Surcharges: Recommendations

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## **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 or commercial district. The area is filled with numerous large, rectangular buildings, likely warehouses or manufacturing facilities, with flat roofs. The buildings are arranged in a somewhat grid-like pattern, with streets and parking lots interspersed. In the background, a range of mountains is visible under a clear sky. The overall scene depicts a sprawling industrial zone.

## **4. Create a TOD Infrastructure Revolving Fund**



# 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.



An aerial photograph of an industrial or commercial district. The foreground and middle ground are filled with numerous large, rectangular buildings with flat roofs, typical of warehouses or big-box stores. The buildings are arranged in a somewhat grid-like pattern with some irregularities. In the background, a range of mountains is visible under a clear sky. The overall scene is brightly lit, suggesting daytime.

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

# CFDs: Recommendations

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## **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.



An aerial photograph of a vast industrial park or warehouse district. The area is filled with numerous large, rectangular industrial buildings with flat roofs, mostly in shades of grey and blue. The buildings are arranged in a somewhat grid-like pattern, with some smaller structures and parking lots interspersed. In the background, a range of rugged mountains is visible under a clear blue sky with a few wispy clouds. The overall scene depicts a major industrial hub.

## **6. Other recommendations**

# Other Recommendations

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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

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# Next Steps



# Implementation: Short-Term Actions

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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

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Support **proposed state legislation** that would increase infrastructure funding via Tax Increment Financing and the conveyance tax.

Support **targeted infrastructure financing** in both State and County CIP budgets.

The OPSD team and our consultants will **continue outreach** on the InfraFin Strategy; reach out if you would like a meeting with your team.





# 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](https://files.hawaii.gov/dbedt/op/lud/Reports/TOD_InfraFin_Strategy_20231221.pdf)**

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