TOD Infrastructure Finance and Delivery Strategy

State of Hawaiʻi | Office of Planning and Sustainable Development

Recommendations and Implementation Strategy

Phase 4 Report | December 2023

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List of Abbreviations and Acronyms

ACFR	Annual Comprehensive Financial Report
AHTIF	(Maine) Affordable Housing Tax Increment Financing
BAHFA	Bay Area Housing Finance Authority
BART	(San Francisco) Bay Area Rapid Transit
B&F	(State) Department of Budget & Finance
BID	Business Improvement District
BMP	Best Management Practices
CDBG	Community Development Block Grant
CFD	Community Facilities District
CIP	Capital Improvement Program
CWSRF	Clean Water State Revolving Fund
DAGS	(Hawaiʻi) Department of Accounting and General Services
DIF	(Massachusetts) District Improvement Financing
DMV	Department of Motor Vehicles
DOE	(Hawaiʻi) Department of Education
DURF	Dwelling Unit Revolving Fund
DWSRF	Drinking Water State Revolving Fund
EIFD	(California) Enhanced Infrastructure Financing District
FY	Fiscal Year
GET	General Excise Tax
GO	General Obligation (Bond)
HART	Honolulu Authority for Rapid Transportation
HCDA	Hawaiʻi Community Development Authority
HGIA	Hawaiʻi Green Infrastructure Authority
HHFDC	Hawaiʻi Housing Finance & Development Corporation
HOME	(Federal) Home Investments Partnerships Program
HRS	Hawaiʻi Revised Statutes
HVAC	Heating, Ventilation, and Air Conditioning
KPD	Kauaʻi Police Department
MTC	(San Francisco Bay Area) Metropolitan Transportation Commission
NASED	New Aloha Stadium Entertainment District
OPSD	(Hawaiʻi) Office of Planning and Sustainable Development
PAG	Project Advisory Group
PRO	(Federal) Pathways to Removing Obstacles (to Housing)
PIG	Permitted Interaction Group
RHRF	Rental Housing Revolving Fund
RIIB	Rhode Island Infrastructure Bank
RPT	Real Property Tax
SF	Square Feet

SID	Special Improvement District
SLH	Session Laws of Hawaiʻi
STAR	(Kansas) Sales Tax and Revenue (Bonds)
TAT	Transient Accommodations Tax
TIDD	(New Mexico) Tax Increment Development District
TIF	Tax Increment Financing
TJPA	Transbay Joint Powers Authority
TOD	Transit-Oriented Development
UCH-TIF	(Massachusetts) Urban Center Housing Tax Increment Financing
UH	University of Hawaiʻi
WPCDC	Wailuku Partnership Development Corporation
WWPS	Wastewater Pump Station
WWTP	Wastewater Treatment Plant

Executive Summary

A key concern identified in the Hawaiʻi State TOD Strategic Plan is the lack of infrastructure in TOD areas needed to support affordable housing and mixed-use development across the State. Several State-funded studies have revealed the magnitude of the funding required for infrastructure improvements needed in these areas.[1] The State Legislature has also ramped up efforts to support development of infrastructure capacity to address Hawaiʻi's long-standing affordable housing crisis.[2]

Currently, infrastructure improvements are funded and constructed by individual developers in markets with favorable conditions or through Capital Improvement Program (CIP) investments when tax revenues and political will allow. The current process, while providing substantial resources, is fragmented and can produce inequitable outcomes. The scale of infrastructure needs requires more funding than what CIP and irregular infusions from the State can yield. In addition to current resources, Counties need tools that provide access to regular, large sources of funds, and financing that does not interfere with regular County bonding activity.

Existing County and State funding for infrastructure is not enough to meet housing needs.

- Existing sources – even in good budget years – are just not sufficient for the infrastructure needed to support housing production goals.
- Counties have limited capacity to raise necessary revenues on their own.
- The State – as landowner and developer – needs to invest in infrastructure to expedite housing production.
- Additional tools are needed to supplement existing County and State resources.

The State Legislature funded this study in recognition of the lack of sufficient funding for infrastructure – with a particular interest in examining the role of value capture and alternative delivery tools in filling gaps in the infrastructure funding and delivery capacity of Counties and the State to deliver TOD.[3]

Four TOD Pilot Areas were selected by their respective Counties for this study.[4]

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[1] These include the 2018 "State Transit-Oriented Development (TOD) Planning and Implementation Project for the Island of Oʻahu" commissioned by the Office of Planning (now the Office of Planning and Sustainable Development (OPSD)) and 2022 "State Infrastructure Improvement Master Plan for the Iwilei Area" commissioned by the Hawaiʻi Housing Finance and Development Corporation (HHFDC) and Department of Accounting and General Services (DAGS)

[2] These include 1) Act 48, Session Laws of Hawaiʻi (SLH) 2023, extending the timeframe for adoption of County GET surcharge ordinances, the Legislature acknowledged the need to increase funding for the counties to provide public infrastructure for housing development and 2) Act 184, SLH 2022 authorized a new TOD Infrastructure Improvement District Program under the Hawaiʻi Community Development Authority (HCDA) and established a TOD Infrastructure Improvement District Special Fund.

[3] Act 88, SLH 2021, Section 39 Budget Proviso.

[4] While this effort focused on pilot areas, the findings from and the financing tools identified for these pilot areas can be applied to other projects like Oʻahu's Aloha Stadium, or West Maui.

The study required consultation with key decision-makers and stakeholders who were formed into a Project Advisory Group (PAG) for the study. County Permitted Interaction Groups (PIGs) were also consulted throughout the project (please refer to Appendix 2 for agencies and individuals in the PAG and PIGs who participated in the study).

HR&A Advisors led the study, with the support of subconsultants PBR HAWAIʻI, KPMG LLC, Ashurst, Starn O'Toole Marcus & Fisher, and R.M. Towill (the Consultant Team).

The study started in June 2022 and spanned four phases, including:

- **Phase 1:** Reconnaissance and initial review of development opportunities and infrastructure needs in each TOD Pilot Area;
- **Phase 2:** Preliminary identification of funding, financing, and delivery instruments pertinent to the infrastructure requirements in the TOD Pilot Areas;
- **Phase** 3: An estimate of the potential funding and financing streams from funding and financing options in each TOD Pilot Area that could be implemented by County governments, consisting mostly of value capture tools such as Tax Increment Financing (TIF), assessment districts, and one-time fees, among others; and
- **Phase 4:** An implementation strategy for Counties and the State to streamline or allow for implementation of the tools and other measures to expand the funds available for TOD-related investments. This implementation strategy summarizes the findings from prior phases and recommends actions at the State and County levels to address infrastructure financing gaps and advance affordable housing and other development in TOD areas in each County and Statewide.[5]

Phase 4 culminated in this report. Reports for this and the other three phases will be available at the State of Hawaiʻi Office of Planning and Sustainable Development website.

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[5] As this study was in its final stages, catastrophic wildfires on Maui led to the deaths of nearly 100 people and the destruction of over 3,000 structures in August 2023. The fact that Maui officials continued to participate in this project speaks to their inner strength and understanding that now, more than ever, Maui will need infrastructure financing assistance. The full impact on Lahaina's water, sewer, and road systems is currently being assessed. Although Maui's TOD Pilot area – the Kaʻahumanu Avenue Community Corridor – was not physically impacted by the disaster, Maui's economy needs jumpstarting to ensure residents' livelihoods are protected and to promote sustainable economic growth. The concepts identified in the West Maui Community Corridor TOD planning effort may be useful to support recovery efforts. Large-scale infrastructure projects that contribute to Lahaina's rebuilding could benefit from some of the financing mechanisms discussed in this Strategy report.

In Phase 1, the Consultant Team identified redevelopment opportunities that would significantly expand the supply of housing, particularly of affordable units, within each of the Counties, but that first require important investments in terms of enabling infrastructure.[6] In particular:

- **Iwilei-Kapālama (Oʻahu)** has the potential to accommodate 27,500 new housing units, which require $667 million in upfront infrastructure investment to enable their construction;[7]
- The **Kaʻahumanu Avenue Community Corridor (Maui)** has a pipeline of 2,200 housing units, which require a water infrastructure investment of about $7 million;[8]
- The **Līhuʻe Town Core (Kauaʻi)** could accommodate the construction of 775 residential units but requires water and wastewater last-mile connections totaling $8 million; and
- The **Ane Keohokalole Highway Corridor (Hawaiʻi)** has a pipeline of 4,200 housing units, though it requires $462 million in upfront capital investments.

In Phase 2, it was clear that no County's infrastructure requirements are fully funded through existing programs, necessitating additional funding and financing tools. The Consultant Team identified a set of potential funding options (including project-level, districtwide, and countywide sources, as well as grants and government contributions), financing options (State and County debt, Federal loan programs, private options), and delivery models (from traditional procurement to public-private partnerships) for these infrastructure projects.

Among these options, the Consultant Team identified a specific set of instruments for further analysis that Counties could implement in the TOD Pilot Areas and in other priority areas, including TIF, special assessment districts such as Community Facilities Districts (CFDs) and Special Improvement Districts (SIDs), one-time fees (such as impact fees or development fees), Business Improvement Districts (BIDs), and earmarking of revenues produced from collecting General Excise Tax (GET) and Transient Accommodation Tax (TAT) County surcharges over retail and hotel expenditures derived from new real estate development activity in the TOD Pilot Areas.

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[6] The infrastructure costs identified are from a single point in time. These costs will naturally change, but the numbers provide insight into order-of-magnitude financing needs.
[7] The Consultant Team has not received complete information as to how much of this amount is already funded.
[8] There is likely additional water and wastewater infrastructure required to accommodate new growth, but individual projects have not yet been identified by the County.

In Phase 3, the Consultant Team then modeled the potential proceeds from implementing these instruments. From the analysis in Phase 1 to 3, the Consultant Team concluded that:

1. **Counties have a limited set of tools to raise the funds necessary to enable TOD**, given that a) in matters of taxation, they are only allowed to determine the rate of property taxes; and b) districtwide TOD funding tools – such as TIF, special assessment districts, etc. – are not suitable for all areas. Policy changes at the State level could provide Counties with new tools, while policy changes at the County level could streamline the implementation of tools already within their reach.
2. As opposed to most conventional funding sources, **value capture tools typically allow for ring-fencing[9] resources for specific TOD-enabling infrastructure,** which signals the commitment of public resources for infrastructure improvements in a designated area and increases certainty for developers to pursue housing and commercial development in those areas. Moreover, ring-fencing revenues generated within an area to pay for infrastructure for that area means that new development directly helps pay for the cost of that public investment.
3. **The implementation potential of districtwide tools is nuanced and varies depending on the market dynamics of each area and policies at the State and County levels.** In particular:
    a. TIF and CFDs can only yield significant revenues in areas with strong market and development potential, and their potential in areas where demand for market-rate residential and commercial development is low is limited. Moreover, the State constitution prevents implementation of TIF.
    b. Special Assessment Districts are viable only for market-rate developments with profit margins that are high enough for investors, tenants, and owners to absorb the cost of additional taxes or assessments (limiting their potential in affordable housing developments).
    c. One-Time Fees are applicable in the same financial circumstances as special assessment districts, but the existing regulatory frameworks in all Counties do not facilitate their widespread and systemic implementation. Moreover, one-time fees cannot support bond issuances and therefore are not viable for upfront financing.
    d. Earmarking GET and TAT surcharge proceeds originating from local development is not allowed by existing legislation, which determines the use of those proceeds by Counties. Moreover, State legislation does not

[9] "Ring-fencing" means reserving funds for a specific purpose.

authorize TIF districts to capture proceeds from these taxes, including both their base and surcharge components.

e. BIDs in commercial centers can help increase market demand for residential and commercial development and thereby be a first step towards creating the market and financial conditions that make other districtwide funding tools viable.

4. **State-level measures are needed to provide further funding for TOD and supplement revenues from districtwide tools available to Counties.** These tools may not yield enough funds to support local infrastructure, given that their funding and financing capacity relies on market-rate and commercial development, which may not be in demand or may be financially unfeasible in areas requiring infrastructure investments.
5. **Value capture tools can provide greater flexibility in the eligibility of their uses than some traditional public funding** (such as GO Bonds, CIP, State grants, or Federal programs), which gives Counties more versatility in funding priority projects.

Phase 4 Recommendations. Based on this analysis, and as detailed in this report, the Consultant Team recommends ten legislative and administrative actions at the State and County levels to accelerate the funding, financing, and delivery of TOD-enabling infrastructure in the State.

While the key TOD financing recommendations focus on increasing the amount and reliability of funding available for infrastructure and housing development, this strategy also recognizes that implementing infrastructure financing and delivery programs requires understanding an area's development potential, the costs and timing of infrastructure improvements needed to support that development, and the entities best positioned to deliver the infrastructure. This typically requires preparing an infrastructure master plan to guide decisions about the funding, financing, schedule, and delivery methods for planned infrastructure. As a baseline, the State and Counties should continue collaboration via CIP investments and general fund appropriations as needed to advance infrastructure projects.

Five recommended State-level actions are aimed at creating new sources of funds for investments that unlock TOD and the advancement of affordable housing goals, including:

1. **Expand the infrastructure funding capacity of the State conveyance tax by amending State Law**, increasing its rate and allocating a fixed share of proceeds to TOD investments and affordable housing.
2. **Expand the infrastructure funding capacity of tourism-related taxes by amending State Law,** increasing the existing cap on TAT surcharge proceeds and authorizing counties to charge a surcharge on car rentals.
3. **Authorize a ballot measure for a constitutional amendment that permits TIF and amend State legislation to allow the allocation of TIF revenues for**

infrastructure in priority areas, allowing TIF districts to have non-contiguous boundaries and enabling the use of revenues outside the TIF district, particularly in areas that the State or Counties wish to prioritize for improvements, and to capture State GET revenues to encourage counties to use TIF and increase its impact. Once authorized, Counties can consider TIF ordinances that include a "but-for" test to avoid TIF being utilized in communities in which development could happen without the use of TIF and that require a net fiscal impact finding from TIF implementation.

4. **Create a TOD infrastructure revolving fund** capitalized by dedicated revenue sources, with a governance structure that includes all Counties and fund distribution criteria that incorporate equity and historic disparities in access to resources.
5. **Expand the infrastructure funding capacity of GET surcharge revenues by amending State Law**, particularly by providing more flexibility on the use of County GET surcharge revenues, removing the sunset over GET surcharge collection, and increase the existing cap on the surcharge rate Counties are authorized to adopt. Because the City and County of Honolulu's GET surcharge revenues are currently fully allocated to the Honolulu rail project, this recommendation is initially targeted to the Neighbor Islands.

Five recommended County-level actions are aimed at unlocking the funding capacity of tools they are already authorized by the State to adopt, including:

6. **Encourage the formation of CFDs to finance development-enabling infrastructure**, by identifying the areawide critical infrastructure needs, streamlining the entitlement process, and, when market circumstances permit, tying rezonings to the formation of a CFD or other district-level financing that can partly fund areawide infrastructure.
7. **Promote the creation of BIDs to improve land value and development feasibility**, since BIDs can fund services, minor streetscape improvements, and public parking that can enhance real estate demand in the area and the feasibility of infill development, particularly in existing commercial and mixed-used areas.
8. **Consider the implementation of countywide impact fees programs**, starting by conducting impact fee studies to determine their potential range of rates.
9. **Assess the potential modification of property tax exemptions in the City and County of Honolulu,** conducting a countywide rental housing market and feasibility study to evaluate and potentially reassess the existing RPT exemption on all units within mixed-income residential projects with a minimum of 20% of affordable units ahead of the exemption's expiration in 2030.
10. **Assess the progressiveness of the structure of property tax rates in the City and County of Honolulu**, studying the potential fiscal and housing market impacts of implementing a progressive property tax structure, akin to those implemented on the Neighbor Islands.

In addition to the TOD Pilot Areas, the financing tools evaluated and the study recommendations will have value to other priority projects across the State, such as the New Aloha Stadium Entertainment District (NASED) project being undertaken by the State Stadium Authority. The NASED project envisions the creation of a vibrant live-work-play-thrive destination on O'ahu with a new multi-use State stadium serving as the centerpiece for a mixed-use real estate development on the 98-acre Aloha Stadium site located in the State Halawa TOD Priority Area.

Significant infrastructure investments will be required to achieve this vision, and financing mechanisms, such as TIF, may be explored as part of the financing strategy for the infrastructure improvements and NASED development program. Meetings with agency administrators and staff to discuss and respond to questions and concerns about specific tools, such as TIF for the Aloha Stadium site, have been conducted and will be an important part of the outreach to follow the issue of the final study report.

These recommendations will take time to implement. For the recommendations to be fully realized, policies will need to be changed, government's implementation capacity will need to be expanded, and new ideas will need to be further examined. While the State and Counties work on long-term strategies, they should continue to work together via the County and State CIP process and general fund appropriations to continue to push infrastructure projects forward.

1. Study Overview

The State of Hawaiʻi is pursuing TOD efforts as a policy priority to promote housing and community development in areas served by transit with existing infrastructure systems in place and where allowable densities will support higher levels of affordable housing. State TOD efforts are guided by the following principles:[10]

1) Locate or redevelop facilities in existing towns and growth centers at transportation nodes served by public transportation, in alignment with County plans;
2) Maximize the co-location of State facilities and services in higher density, compact, mixed-use developments, and communities;
3) Expedite investment in critical infrastructure necessary to successfully implement town and growth center development;
4) Promote creative, cost-effective partnerships with other public and private partners;
5) Develop more affordable housing wherever feasible to do so;
6) Use green building and sustainable development practices as much as possible; and
7) Engage in equitable development that promotes and supports community well-being and active and healthy lifestyles.

Through Hawaiʻi Interagency Council for Transit-Oriented Development (TOD Council) activities related to implementing the State TOD Strategic Plan, the State has pursued efforts with State and County agency partners to advance TOD planning and projects based on these principles. The lack of infrastructure capacity, even in TOD areas, to support affordable housing and mixed-use development was a key concern in the State TOD Strategic Plan. In 2018, the Office of Planning (now OPSD) commissioned a State TOD planning and implementation study, which produced a high-level assessment of infrastructure needs and rough order of magnitude costs for anticipated development in three State TOD Priority Areas along the Skyline Rail Corridor on Oʻahu: East Kapolei, Halawa-Stadium, and Iwilei-Kapālama.[11] Subsequently, in 2022, HHFDC and DAGS commissioned a more-detailed "State Infrastructure Improvement Master Plan for the Iwilei Area" and the preparation of a programmatic environmental impact statement for the Infrastructure Master Plan. All of these studies revealed the magnitude of the funding required for the necessary infrastructure improvements.

On a parallel track, the State Legislature has ramped up its efforts to support the development of infrastructure capacity, specifically to unlock the potential for expedited

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[10] State of Hawaiʻi Strategic Plan for Transit-Oriented Development, "Hawaii Interagency Council for Transit-Oriented Development," December 2017, https://files.hawaii.gov/dbedt/op/lud/20220425%20TOD%20Strat%20Plan/TODStratPlan_Aug2018_Current.pdf.
[11] "State Transit-Oriented Development (TOD) Planning and Implementation Project for the Island of Oʻahu (Office of Planning Department of Business, Economic Development and Tourism, July 2020).

affordable housing delivery to address Hawaiʻi' long-standing affordable housing crisis. In Act 48, Session Laws of Hawaiʻi (SLH) 2023, which extended the timeframe for adoption of County GET surcharge ordinances, the Legislature acknowledged the need to increase funding for the counties to provide public infrastructure to help reduce the burden of infrastructure costs on individual projects. Act 184, SLH 2022 authorized a new TOD Infrastructure Improvement District Program under HCDA and established a TOD Infrastructure Improvement District Special Fund. The new program is intended to assist State and County agencies by enabling HCDA to undertake needed public infrastructure improvement projects in TOD areas statewide and to recoup the cost of the projects to fund more projects. These measures are steps toward supplementing County funding and addressing capacity and scheduling issues impacting the timely delivery of infrastructure necessary for planned development to occur.

Currently, most infrastructure improvements are paid for by individual developers under certain market conditions, or via Capital Improvement Programs (CIPs) when tax revenues and political will allow. The current process, while providing substantial resources, can also produce inequitable outcomes and is fragmented. The scale of Counties' infrastructure needs requires more funding than what CIP and irregular infusions from the State level yields. In addition to current resources, Counties need tools that provide access to regular, large sources of funds, and financing that does not interfere with regular County bonding activity.

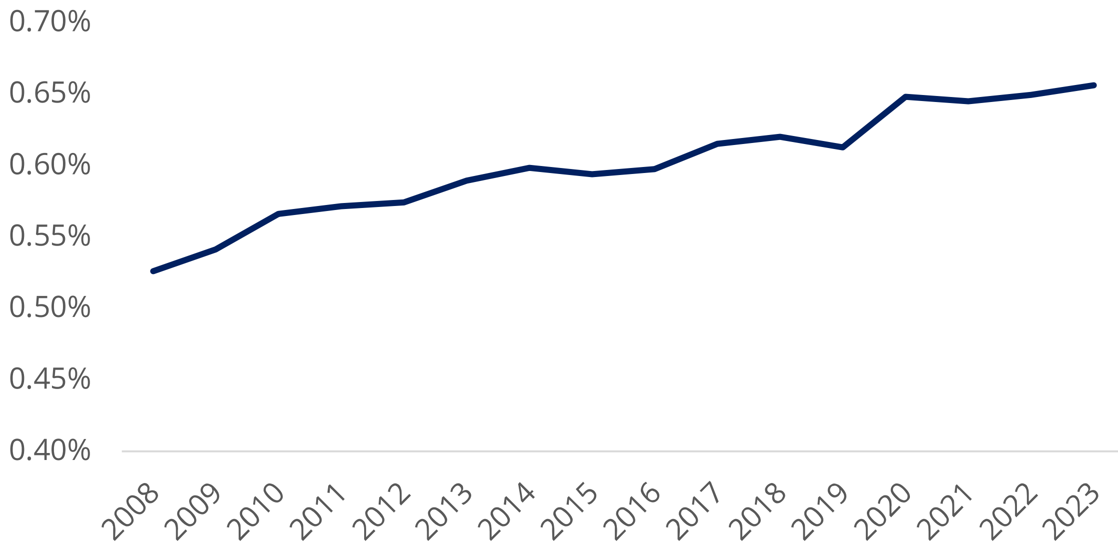
Counties are already investing in infrastructure via existing means such as CIP, but existing sources – even in good budget years – are just not sufficient for the infrastructure needed to support housing production goals. Additional tools, including those explored by this study, are needed to supplement their resources.

In 2023, the City and County of Honolulu, County of Maui, and County of Kauaʻi approved about $379.7 million in infrastructure investments via CIP for the TOD Pilot Areas referenced in this study alone. Specifics about those investments are included in Appendix 4.

Counties have limited capacity to raise additional needed revenues on their own.

Property taxes are the principal source of revenue for the Counties. Collectively, the Counties have already raised property taxes almost continuously over the past 15 years (a 25% increase, from 0.52% to 0.65% of assessed value). Figure 1 shows the effective statewide property tax rate from 2008 to 2023, calculated by dividing statewide real property tax revenues by statewide total taxable assessed value.

Figure 1 | Hawaiʻi Statewide Effective Property Tax Rate, 2008-2023



Source: Honolulu Department of Budget and Fiscal Services Real Property Assessment Division, "State Reports"

The State Legislature funded the present study in recognition of the lack of funding for infrastructure – with a particular interest in examining the role of value capture and alternative delivery tools in filling gaps in the infrastructure funding and delivery capacity of the Counties and the State to deliver TOD.[12] The budget proviso required the following tasks for the study:

- Identification and assessment of alternative financing, project delivery, and cost recovery mechanisms to recapture State investment in TOD-supportive infrastructure;
- Developing specific financing, cost recovery, and project delivery tools to be implemented at one transit-oriented development site in each County as a pilot project (those areas are referred to collectively here as the "TOD Pilot Areas", areas with potential for mixed-use development and large needs in terms of basic infrastructure as well as new workforce and income-restricted housing units);
- Analysis of barriers and strategies to implement alternative financing, project delivery, and cost recovery mechanisms for transit-oriented development; and
- Developing recommendations, including any proposed legislation, needed to implement the tools identified for infrastructure for TOD.

[12] Act 88, SLH 2021, Section 39 Budget Proviso.

It also required consultation with key decision-makers and stakeholders who were formed as a Project Advisory Group (PAG) for the study, including:

- The Director of OPSD;
- The Executive Director of the Hawaiʻi Housing Finance and Development Corporation (HHFDC);
- The Administrative Director of the Office of the Governor;
- The Director of the State Department of Budget and Finance (B&F);
- The Executive Director of the Hawaiʻi Community Development Authority (HCDA);
- The State House of Representatives capital improvement projects manager;
- The State Senate capital improvement projects manager;
- A member of the State House of Representatives designated by the House Speaker;
- A member of the State Senate designed by the Senate President; and
- The mayor of each County.

County Permitted Interaction Groups (PIGs) were also consulted throughout the project. Please refer to Appendix 2 for agencies and individuals in the PAG and PIGs who participated in the study.

HR&A Advisors led this study, with the support of subconsultants PBR HAWAII, KPMG LLC, Ashurst, Starn O'Toole Marcus & Fisher, and R.M. Towill (the Consultant Team). The Consultant Team used a four-phase approach for this study as illustrated in Figure 2.

Figure 2 | Phases of TOD Infrastructure Financing and Delivery Strategy Study

Phase 1 Project Reconnaissance & Initial Review	Phase 2 Assessment of Funding, Financing & Delivery Options	Phase 3 Funding & Financial Analysis	Phase 4 Recommendations for Implementation
Jun – Oct 2022	**Nov 2022 – Mar 2023**	**Mar – Aug 2023**	**Sep – Dec 2023**
What **infrastructure projects** are needed to facilitate TOD in the Pilot Areas, and what are their **capital costs**? • Site Visit, 1st PIG Meetings, PAG member meet-&-greets: Jun 2022 • **Report**: *Review and Summary of Existing Data*	What **funding, financing, and delivery options** are available to pursue infrastructure projects in each TOD Area? • 2nd PIG Meetings: Feb 2023 • 1st PAG Meeting: Mar 2023 • **Report**: *Shortlist of Funding, Financing, and Delivery Options; Discussion Guide of Available Funding Financing, and Delivery Options*	What are the **monetary streams of the identified funding and financing options** in each TOD Pilot Area? • 3rd PIG Meetings: Aug 2023 • **Report**: *Financial Analysis of TOD Infrastructure Funding and Financing Options*	What are the **barriers to implementation** of identified options? What is **needed to overcome** the barriers to implementation? • 4th PIG Meetings: Nov/Dec 2023 • 2nd PAG Meeting: Dec 2023 • **Report**: *TOD Infrastructure Finance and Delivery Strategy*

In Phase 1 (June – October 2022), the Consultant Team identified a pipeline of affordable and mixed-income development projects whose realization is contingent on construction and delivery of certain districtwide and localized infrastructure,[13] including:

- In **Iwilei-Kapālama** (Oʻahu), **$667 million** in district-wide infrastructure, including drainage, electrical systems, roads, and sea-level rise mitigation;
- In the **Kaʻahumanu Avenue Community Corridor** (Maui), **$7 million** for water capacity and additional funds required for affordable housing development;
- In the **Līhuʻe Town Core** (Kauaʻi), **$8.0 million** for water capacity improvements; and
- In the **Ane Keohokalole Highway Corridor** (Hawaiʻi), **$462 million** for water, wastewater, and road infrastructure.

[13] The infrastructure costs identified are from a single point in time. These costs will naturally change, but the numbers provide insight into order-of-magnitude financing needs.

Appendix 3 contains a summary description of each TOD Pilot Area including their size, public land ownership, development and redevelopment opportunities, and infrastructure requirements and costs. Appendix 4 provides the list of projects and infrastructure needs and cost estimates compiled in Phase 1.

In Phase 2 (November 2022 – March 2023), the Consultant Team identified a menu of funding, financing, and delivery instruments that could be used to cover the identified infrastructure costs. Through meetings with the County Permitted Interaction Groups – composed of representatives from County and State agencies – the Consultant Team shortlisted those instruments, reflected in the *Shortlist of Available Funding, Financing, and Delivery Options for Further Analysis*. The Consultant Team also presented these findings to the Project Advisory Group, composed of high-level County and State stakeholders.

At this stage of the analysis, the Consultant Team determined that non-traditional infrastructure delivery instruments were not suitable for the TOD Pilot Areas. In summary, this is because the related infrastructure projects were not complex enough or of large enough scale to make the fixed costs of non-traditional procurement worthwhile. As a result, alternative delivery instruments were not studied further by the Consultant Team. However, while the TOD Pilot Areas were not suited for alternative delivery models, note that other areas or developments could potentially benefit from them, such as the Aloha Stadium development. Moreover, stakeholders noted to the Consultant Team that barriers in the procurement code, as well as the length of time needed for permitting and entitlement for TOD and affordable housing development, also need addressing.

In Phase 3 (April – August 2023), the Consultant Team conducted a financial analysis of the funding and financing capacity of those short-listed options, which consisted mainly of value capture tools for each TOD Pilot Area. These findings are summarized in the *Report on Financial Analysis of TOD Infrastructure Funding and Financing Options*. Based on the findings of the financial analysis and meetings with the County Permitted Interaction Groups, the report laid out a set of preliminary findings regarding the barriers and potential policy actions regarding the increase in the State's and Counties' funding and delivery capacity of TOD infrastructure and affordable housing.

In Phase 4 (September 2023 – December 2023), the Consultant Team identified critical challenges and opportunities for implementation of TOD funding and financing tools. Based on this analysis, the Team then developed a set of policy recommendations and implementation strategies and flowcharts for State- and County-level action to address infrastructure needs in the TOD Pilot Areas.

Phase 4 culminated with this report. Reports for this and the other three phases of the study will be available on the State of Hawaiʻi Office of Planning and Sustainable Development website.

In addition to the TOD Pilot Areas, the financing tools evaluated in the study and the study recommendations will have value to other priority projects across the State, such as the New Aloha Stadium Entertainment District (NASED) project being undertaken by the State Stadium Authority. The NASED project envisions the creation of a vibrant live-work-play-thrive destination on Oʻahu with a new multi-use State stadium serving as the centerpiece for a mixed-use real estate development on the 98-acre Aloha Stadium site located in the State Hālawa TOD Priority Area. Significant infrastructure investments will be required to achieve this vision, and financing mechanisms, such as TIF, may be explored as part of the financing strategy for the infrastructure improvements and NASED development program.

Meetings with agency administrators and staff to discuss and respond to questions and concerns about specific tools, such as TIF for the Aloha Stadium site, have been conducted and will be an important part of the outreach to follow the issue of the final study report.

A Note on the Maui Wildfires

As this Strategy was in its final stages, catastrophic wildfires on Maui led to the deaths of nearly 100 people and destruction of over 3,000 structures in August 2023. The fact that Maui officials continued to participate in this project speaks to their inner strength and understanding that now, more than ever, Maui will need infrastructure financing assistance. The full impact on Lahaina's water, sewer and road systems is currently being assessed.

Although Maui's TOD Pilot area – the Kaʻahumanu Avenue Community Corridor – was not physically impacted by the disaster, Maui's economy needs jumpstarting to ensure livelihoods and promote sustainable economic growth. The concepts identified in the West Maui Community Corridor TOD planning effort may be useful to support recovery efforts. One can imagine that large-scale infrastructure projects that contribute to Lahaina's rebuilding could benefit from some of the financing mechanisms discussed in this Strategy.

The recommendations outlined by the Consultant Team will take time to implement. For the recommendations to be fully realized, policies will need to be changed, governing capacity will need to be expanded,[14] and new ideas will need to be further examined. While the State and Counties work on long-term strategies, the State and Counties should continue to work together via the County and State CIP process and general fund appropriations to continue to push infrastructure projects forward.

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[14] PIG members, and particularly County PIG members, regularly suggested that infrastructure financing and delivery was hobbled by a lack of staffing. Public entities lack the capacity to facilitate the creation or management of new financing mechanisms. To increase the production and preservation of affordable housing across the entire State, OPSD partnered with the Governor's Office of Housing to submit an application for HUD Pathways to Removing Obstacles to Housing (PRO Housing) funding in October 2023. The theme of the application, "Infrastructure Unlocks Housing," reflects the recommendations emerging from HHFDC's "Yes In My Back Yard" efforts and this Infrastructure Finance and Delivery Strategy. Approximately $10 million were requested to:

- Create a statewide Infrastructure Bank;
- Create a Community Facilities District in Iwilei, Oahu; and
- Fund infrastructure design for TOD projects in Lihue, Kauai, and for Kahekili Terrace, Maui and Kamakana Villages, Hawaii.

Funds were also requested to hire two people to manage these projects and work with the counties to reduce regulatory barriers. The State and counties will likely need to pursue more Federal dollars to assist with capacity building. Ideally, staffing will be increased through annual operations budgets to reflect not only the needs of CIP projects, but will look ahead to implement the mechanisms needed to realize the infrastructure improvements called for in this Strategy.

2. Existing Potential and Limitations of Districtwide Funding and Financing Tools

Current infrastructure funding mechanisms like CIP, while providing substantial resources, are insufficient to meet total TOD infrastructure needs. Additional tools and funding streams are needed.

In Phase 2, the Consultant Team identified a set of potential districtwide funding and financing tools to build infrastructure that can enable TOD, housing production, and mixed-use development. These tools included TIF, Assessment Districts (including CFDs and SIDs), Business Improvement Districts (BIDs), one-time fees (such as impact fees, linkage fees, or development fees), and earmarking of revenues from GET and TAT surcharges stemming from construction-, retail-, and hotel-related sales within a specific district. See Figures 3 and 4 for a summary description of these tools.

Figure 3 | Summary of Value Capture Instruments Analyzed

Value Capture Instruments	Description
Tax-Increment Financing (TIF)	A district-based tool that allows taxing jurisdictions to use anticipated future increases in property-based tax revenues to finance present-day infrastructure improvements. Proceeds arise from taxes paid on the properties' taxable base, which includes new development and the portion of the value of existing properties that appreciates after creation of the TIF district. TIF can be used on a Pay-As-You-Go basis (the government reimburses a private developer as incremental taxes are generated) or be paired with financing (a local government issuing bonds, backed by a percentage of projected future tax collections, which are expected to increase over time given higher property values and/or new business activity within a designated project area). A TIF bond issuance is likely the financing instrument resulting in the most conservative debt capacity, given its typical interest rates, reserves, and coverage ratios, which are higher than other types of government-issued debt. If TIF revenues are leveraged through a pay-as-you-go scheme or to justify additional and/or larger general obligation bond issuances, sometimes referred to as "synthetic financing", they can generate larger net proceeds. "Synthetic TIF" is distinct from traditional TIF, as bonds are backed by the general fund, not just growth of revenues in the TIF district. This tool is not covered in the study because the Consultant Team is recommending actual TIF be enhanced and adopted.
Special Assessment District	These are generally formed as Community Facilities Districts (CFDs) or Special Improvement Districts (SIDs), where property owners agree to pay ongoing special assessments or taxes on real property to fund public services and public improvements

Value Capture Instruments	Description
	that enable future development. Like TIF, assessments can be used on a Pay-As-You-Go Basis or be paired with bond issuances, backed by anticipated revenue from the special tax or assessment, which fund present-day infrastructure. Payment of special taxes or assessments over existing or future land uses begins as soon as the districts are created. Examples in Hawaiʻi include the Kukuiʻula CFD, Kaloko Heights CFD, the Lono Kona Sewer Improvement District, and the Waikiki Beach SID, which funds beach restoration. The Consultant Team calculated the maximum capacity of the various development typologies to absorb new assessments while preserving their financial feasibility. The estimated additional assessments/taxes are within the constraints of both: a) this maximum capacity; and b) a maximum burden of RPT and additional assessment over properties' assessed value of 1.2% for residential uses and 1.5% for commercial uses. There is also a special type of SID akin to a Business Improvement District (BID) that charges an assessment proportionate to commercial properties' assessed value within a certain area. This type of SID is usually established in a consolidated retail/commercial core. Instead of funding enabling infrastructure for future development, proceeds are often used for operations and maintenance of the district, including minor infrastructure works (such as streetscape improvements, signage, and lighting), support and development for local businesses, additional cleanliness and security services, or special events that help activate the area. To create this type of SID, it is critical to have the buy-in and consensus among commercial landowners. An example in Hawaiʻi is the Waikiki Business Improvement District.
One-Time Fees	One-time fees are imposed by a local public agency on new development. There are different types of one-time fees, such as impact fees, service fees, linkage fees, or payments associated with community benefit agreements. Each type of one-time fee carries different requirements that determine the amount that can be charged. For the purpose of this analysis, the Consultant Team calculated the maximum capacity of various development typologies to absorb new one-time fees (regardless of what specific fee is implemented) while preserving their financial feasibility.
General Excise Tax (GET) Surcharge	Earmarking of revenue from existing County GET surcharges or an additional 0.5% surcharge rate derived from point-of-sale operations in new retail space or construction of new facilities in the TOD Pilot Areas.
Transient Accommodation Taxes (TAT) Surcharge	Earmarking of revenue from the existing County TAT surcharge derived from point-of-sale operations in new hotel space.
Utility User Charges	Charges for the use of public utilities providing water, power, and sewage services in the TOD Pilot Areas. The bulk of these revenues are not available for additional areawide capital expenditures, as it is understood they are largely used by the counties or utilities to fund the operational and maintenance costs of various infrastructure systems, along with planned improvements.

Figure 4 | Revenue Characteristics of Value Capture Instruments Analyzed

Value Capture Instrument	Source of Revenue	Timing of Revenues	Can Back Debt Financing?	Can Provide Funding Upfront for Areawide Improvements?
TIF	Revenue from property taxes on a) New development; b) Growth in taxable value of existing properties. **Does not involve the creation of new taxes**.	**Medium- to long-term**. After the district's creation, revenue grows gradually as development and appreciation of the taxable base takes place.	**Yes**	**Yes, but only if paired with a bond issuance**. TIF revenues can provide funding in the early- to mid-stages of development if a bond issuance takes place. Otherwise, TIF revenues grow gradually over time as the taxable base increases.
CFDs / SIDs	Revenue from a new special assessment or tax on new or existing development.	**Short-term**. Payment of the special tax/assessment begins as soon as the district is created and is based on future development.	**Yes**	**Yes**. Like TIF, CFDs and SIDs can support bond issuances. Moreover, they are likely to produce larger revenues than TIF in the early years, given that payments begin as soon as the district is created, even before development has started.
One-Time Fees	Revenue from a one-time payment that takes place upon construction.	**Variable**. Revenue is not cumulative and depends upon time of construction.	**No**	**No**. Proceeds are not bondable and only become available as development takes place in the area.
GET and TAT Surcharges	Revenue from existing or new surcharge.	**Medium- to long-term**. After the district's creation, revenue grows gradually as development takes place.	**Yes**	**Depends**. Areawide proceeds from sales taxes can be earmarked for a TIF district in some jurisdictions. Currently in Hawaiʻi, these are collected for the County as a whole.
User Charges	Existing utility charges.	**Medium- to long-term**. After the district's creation, revenue grows gradually as development takes place.	**Yes**	**No**. Most revenues are not used for capital improvements and may not be able to be earmarked for a specific area.

In Phase 3, the Consultant Team conducted a financial analysis to estimate the funding and financing streams these tools could yield if applied in each TOD Pilot Area and the extent to which they could cover the infrastructure costs identified to enable TOD. The Consultant Team found that these tools could be effective in generating revenue under certain conditions, including demand for and feasibility of market-rate development, as well as certainty over entitlements. This was the case in Iwilei-Kapālama (Oʻahu) and the Ane Keohokalole Highway Corridor (Hawaiʻi).

Conversely, the Consultant Team found that these tools had more limited potential in areas with low demand for market-rate housing and commercial development, which may be the areas that are most in need of capital to fund TOD-enabling infrastructure to support affordable housing. This was the case in the Kaʻahumanu Avenue Community Corridor (Maui) and Līhuʻe Town Core (Kauaʻi).

Figures 5-8 show the results of the financial analysis, summarizing the funding streams and their financing capacities in those TOD Pilot Areas.

Note that for Figures 5-8, it was assumed that development on public lands would be subject to GET and RPT[15], such that non-public uses will be contributing to both the State GET and County RPT tax bases once developed. The Consultant Team also found that, beyond the ranges of revenue produced by these tools, additional County and State resources would be needed to support the funding of infrastructure in the TOD Pilot Areas. Also, note that estimated TIF revenues are net of financing costs, as well as any applicable tax exemptions, such as homeowner exemptions or exemptions related to affordable housing.

For a complete description of the methodology and financial analysis from Phase 3, please see Appendix 6.

[15] Non-public improvements on the land would be subject to RPT, while land remaining in public ownership is not subject to RPT.

Figure 5 | Iwilei-Kapālama, Summary of Funding Streams and Financing Capacity

Instrument	Present Value of Revenue ($M), 2025-2070	Financing Capacity ($M), 2030 and 2040 Issuances*
Tax Increment Financing	$1,264 75% from Existing Properties 25% from New Development	$48 / $77
Special Assessment District (CFD/SID)	$93	$6.0 / $6.0
One-Time Fees	$126	Not Applicable
0.5% GET Surcharge Revenue from New Development	$10	Not Applicable
3% TAT Surcharge Revenue from New Development	No Hotel Development Assumed	Not Applicable
Utility User Charges	$1,087	Not Applicable

(*) Values expressed in 2023 dollars.

Figure 6 | Ane Keohokalole Highway Corridor, Summary of Funding Streams, and Financing Capacity

Instrument	Present Value of Revenue ($M), 2025-2070	Financing Capacity ($M), 2030 and 2040 Issuances*
Tax Increment Financing	$692 29% from Existing Properties 71% from New Development	$36 / $58
Special Assessment District (CFD/SID)	$85	$4.4 / $4.7
One-Time Fees (max. capacity)	$46	Not Applicable
0.5% GET Surcharge Revenue from New Development	$34	Not Applicable
3% TAT Surcharge Revenue from New Development	$18	Not Applicable
Utility User Charges	$404	Not Applicable

(*) Values expressed in 2023 dollars.

Figure 7 | Kaʻahumanu Avenue Community Corridor, Summary of Funding Streams and Financing Capacity

Instrument	Present Value of Revenue ($M), 2025-2070	Financing Capacity ($M), 2030 and 2040 Issuances*
Tax Increment Financing	$936 95% from Existing Properties 5% from New Development	$40 - $87
Special Assessment District	Not Viable	Not Applicable
Business Improvement District	$74	Not Applicable
One-Time Fees	Not Viable	Not Applicable
0.5% GET Surcharge Revenue from New Development	$3	Not Applicable
3% TAT Surcharge Revenue from New Development	No Hotel Development	Not Applicable
Utility User Charges	$84	Not Applicable

(*) Values expressed in 2023 dollars.

Figure 8 | Līhuʻe Town Core, Summary of Funding Streams and Financing Capacity

Instrument	Present Value of Revenue ($M), 2025-2070*	Financing Capacity ($M), 2030 and 2040 Issuances*
Tax Increment Financing	$207 41% from Existing Properties 59% from New Development	$15 - $20
Special Assessment District	Not Viable	Not Applicable
Business Improvement District	$27	Not Applicable
One-Time Fees	Not Viable	Not Applicable
0.5% GET Surcharge Revenue from New Development	$10.7	Not Applicable
3% TAT Surcharge Revenue from New Development	No Hotel Development	Not Applicable
Utility User Charges	$47	Not Applicable

(*) Values expressed in 2023 dollars.

Based on the financial analysis and the feedback received from the County Permitted Interaction Groups (PIGs), the Consultant Team concluded that:

1. **Counties have a limited set of tools to raise the funds necessary to enable TOD,** given that: a) in matters of taxation, they are only allowed to determine the rate of property taxes; and b) districtwide TOD funding tools – such as TIF, special assessment districts, etc. – are not suitable for all areas. Policy changes at the State level could provide Counties with new tools, while policy changes at the County level could streamline the implementation of tools already within their reach.
2. **As opposed to most conventional funding sources, value capture tools typically allow for ring-fencing resources for specific TOD-enabling infrastructure, which signals the commitment of public resources for infrastructure improvements in a designated area and increases certainty for developers to pursue housing and commercial development in those areas.** TIF, for instance, implies the earmarking of future areawide taxes to finance local infrastructure, while proceeds from special assessment districts are only allowed to be used on site-specific or communitywide infrastructure in the area where the district is created. Earmarking proceeds from certain taxes or fees levied statewide or countywide also offer this advantage. Moreover, ring-fencing revenues generated within an area to pay for infrastructure for that area means that new development directly helps pay for the cost of that public investment.
3. **The implementation potential of districtwide tools is nuanced and varies depending on the market dynamics of each area and the policies at the State and County levels.** In particular:
    a. TIF and CFDs can only yield significant revenues in areas with strong market and development potential, and their potential in areas where demand for market-rate residential and commercial development is low is limited. Moreover, the State constitution currently does not clearly authorize the use of TIF.
    b. Special Assessment Districts are viable only for market-rate developments with profit margins that are high enough for investors, tenants, and owners to absorb the cost of additional taxes or assessments (limiting their potential in affordable housing developments).
    c. One-Time Fees are applicable in the same financial circumstances as Special Assessment Districts, but the existing regulatory frameworks in all counties do not facilitate their widespread and systemic implementation. Moreover, one-time fees cannot support bond issuances and therefore are not viable for upfront financing.
    d. Earmarking GET and TAT surcharge proceeds originating from local development is not allowed by existing legislation, which determines the use

of those proceeds by Counties. Moreover, State legislation does not authorize TIF districts to capture proceeds from these taxes from either their base or surcharge components.

   e. BIDs in commercial centers can help increase market demand for residential and commercial development and thereby be a first step towards creating the market and financial conditions that make other districtwide funding tools viable.

4. **State-level measures are needed to provide further funding for TOD and supplement revenues from districtwide tools available to Counties.** These tools may not yield enough funds to support local infrastructure, given that their funding and financing capacity relies on market-rate and commercial development, which may not be in demand or may be financially unfeasible in areas requiring infrastructure investments.
5. **Value capture tools can provide greater flexibility in the eligibility of their uses than some traditional public funding (such as GO Bonds, CIP, other State grants, or Federal programs), which gives Counties more versatility in funding priority projects**. For instance, CIP funds can be used for public infrastructure projects that can enable specific redevelopment opportunities in areas where the potential for real estate development is limited. Once development activity takes off, the potential for the implementation of districtwide value capture tools increases, and their proceeds can be used to fund, in addition to public infrastructure, site-specific infrastructure, or provide funding support to developers for projects that can bring significant community benefits, like affordable housing.

3. Policy Recommendations

The Consultant Team has identified a set of policy actions that the State and Counties can take to enhance the application of existing revenue-generating tools and to create new ones. The ten recommendations that follow provide the most value to expand funding and financing capacity and delivery infrastructure and housing over the mid- and long-term. In the short-term, the State and Counties should continue their collaboration to target existing resources such as CIP and State agency funding to TOD area infrastructure.

While the key TOD financing recommendations focus on increasing the amount and reliability of funding available for infrastructure and housing, this strategy recognizes that implementing infrastructure financing and delivery programs requires understanding an area's development potential, the costs and timing of infrastructure improvements needed to support that development, and the entities best positioned to deliver the infrastructure. This typically requires an infrastructure master plan to guide decisions about funding, financing, schedule, and delivery methods for the infrastructure. As a baseline, the State and Counties should continue collaboration via CIP to advance infrastructure projects.

Why should the State invest in infrastructure? The State's growing role as land-owning developer of major infill and greenfield TOD projects requires planning ahead. And just like private developers, the State will need to invest in the regional backbone infrastructure to develop State lands, while also supporting development on County and private lands.

Recommendations for State-level Actions:

1. **Expand the infrastructure funding capacity of the State conveyance tax by amending State Law**, increasing its rate and allocating a fixed share of proceeds to TOD investments and affordable housing.
2. **Expand the infrastructure funding capacity of tourism-related taxes by amending State Law,** increasing the existing cap on TAT surcharge proceeds and authorizing counties to charge a surcharge on car rentals.
3. **Authorize a ballot measure for a constitutional amendment that permits TIF and amend State legislation to allow the allocation of TIF revenues for infrastructure in priority areas**, allowing TIF districts to have non-contiguous boundaries and enabling the use of revenues outside the TIF district, particularly in areas that the State or Counties wish to prioritize for improvements, and to capture State GET revenues to encourage counties to use TIF and increase its impact. Once authorized, Counties can consider TIF ordinances that include a "but-for" test to

avoid TIF being utilized in communities in which development could happen without the use of TIF and that require a net fiscal impact finding from TIF implementation.

4. **Create a TOD infrastructure revolving fund** capitalized by dedicated revenue sources, with a governance structure that includes all Counties and ensures funds are distributed with criteria that incorporate equity and historic disparities in access to resources.
5. **Expand the infrastructure funding capacity of GET surcharge revenues by amending State Law**, particularly by providing more flexibility on the use of County GET surcharge revenues, removing the sunset over GET surcharge collection, and increase the existing cap on the surcharge rate Counties are authorized to adopt. Because the City and County of Honolulu's GET surcharge revenues are currently fully allocated to the HART rail project, this recommendation is initially targeted to the Neighbor Islands.

Recommendations for County-level Actions:

6. **Encourage the formation of CFDs to finance development-enabling infrastructure**, by identifying the areawide critical infrastructure needs, streamlining the entitlement process, and, when market circumstances permit, tying rezonings to the formation of a CFD or other district-level financing that can partly fund areawide infrastructure.
7. **Promote the creation of BIDs to improve land value and development feasibility**, since BIDs can fund services, minor streetscape improvements, and public parking that can enhance real estate demand in the area and the feasibility of infill development, particularly in existing commercial and mixed-used areas.
8. **Consider the implementation of countywide impact fees programs**, starting by conducting impact fee studies to determine their potential range of rates.
9. **Assess the potential modification of property tax exemptions in the City and County of Honolulu,** conducting a countywide rental housing market and feasibility study to evaluate and potentially reassess the existing RPT exemption on all units within mixed-income residential projects with a minimum of 20% of affordable units ahead of the exemption's expiration in 2030.
10. **Assess the progressiveness of the structure of property tax rates in the City and County of Honolulu**, studying the potential fiscal and housing market impacts of implementing a progressive property tax structure, akin to those implemented on the Neighbor Islands.

The adoption of some or all these measures will allow the State and Counties to access a larger volume of funds for TOD, affordable housing, and housing-enabling infrastructure, as well as provide more flexibility for existing revenue sources to be allocated to these purposes.

RECOMMENDATIONS FOR STATE-LEVEL ACTION

1. EXPAND INFRASTRUCTURE FUNDING CAPACITY OF CONVEYANCE TAX

Increase the conveyance tax for high-assessed value properties and allocate a fixed share of proceeds to fund TOD infrastructure improvements and affordable housing.

Current landscape: The State currently collects a conveyance tax on transactions or sales of real property. The tax has a progressive structure, including differentiated rates depending on the value of the property, and higher rates for condominium or single-family homes for which the purchaser is ineligible for a County homeowner's exemption on property tax (and hence the likely use of the property will be as an investment or second home).[16] The State's conveyance tax rate has not been updated since 2005.[17] Fixed percentages (or dollar amount caps, whichever is less) of conveyance tax revenues are paid into the Land Conservation Fund and Rental Housing Revolving Fund (10% or $5.1 million and 50% or $38 million, respectively).[18]

For FY 2022, revenue from the conveyance tax totaled $188.4 million, up from $62.7 million in FY 2021, a significant increase of 200%.[19] In 2022, if the dollar caps were removed, the Land Conservation Fund would have received $18.8 million (instead of $5.1 million) and the Rental Housing Revolving Fund would have received $94 million (instead of $38 million) out of the total collected.

Barriers to TOD-funding and financing posed by the current landscape:

- A progressive conveyance tax can act as an equitable avenue to subsidize infrastructure development, given that it targets high-income investors by differentiating the tax rate by category and valuation of properties. Other jurisdictions have also implemented a progressive conveyance tax, including Connecticut, the District of Columbia, New Jersey, New York, Vermont, and Washington State.[20] However, Hawaii's existing conveyance tax rate structure has not kept up with the market. Rates were last amended in 2005 – when property values were much lower in the State.
- The fixed $38 million cap on conveyance tax revenues allocated to the Rental Housing Revolving Fund reduces the potential of this tool to fund affordable housing development. Moreover, no revenues are directly allocated from conveyance tax revenues for infrastructure development.

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[16] Hawaiʻi Revised Statutes (HRS) §247-2.
[17] Act 156, SLH 2005.
[18] HRS §247-7.
[19] State of Hawaiʻi, ACFR 2022.
[20] Center on Budget and Policy Priorities. October 1, 2019. "State 'Mansion Taxes' on Very Expensive Homes."

- 40% of funds are currently allocated to the State General Fund. Thus, diversion of additional potential revenues from the General Fund will be a concern and earmarking an additional 10% of existing funds for DURF or other TOD infrastructure funding must be accompanied by an increase in rates to ensure that any change is at a minimum revenue-neutral to the State.

Figure 9 | Expanding Funding Capacity of State Conveyance Tax

Recommended Actions	Benefits and Implications
Amend conveyance tax law to: • Increase the conveyance tax rates for the sale of condominiums and single-family homes for which the purchaser is ineligible for a County homeowner's exemption on property tax valued at \$2 million or above (and for all other properties, \$6 million and above); • Introduce new progressive tax rate tiers for properties valued \$14 million and above; • Exempt individuals who are owner- or renter-occupants and have no ownership interest in any other real property; • Remove the dollar amount caps on revenues to be deposited into the Land Conservation and Rental Housing Revolving Funds and set aside 10% of revenues for DURF; and • Dedicate an <u>additional</u> share of tax revenues currently allocated to the General Fund to fund TOD-enabling infrastructure, either via DURF's regional infrastructure subaccount (HRS §201H-191.5) or a new statewide Infrastructure Fund and/or Bank (see Recommendation 4). The increase in conveyance tax rates mentioned above should be such that the gross amount of conveyance tax revenues deposited in the general fund remain stable.	While conveyance tax receipts depend on market conditions (i.e., the volume of properties sold and the property values thereof), these actions can increase conveyance tax receipts relative to the current baseline and increase the annual regular funding stream to existing revolving funds for affordable housing and infrastructure, the RHRF and DURF. DURF funds can finance low-cost loans for infrastructure improvements for developers who agree to build affordable housing units, and infrastructure loans to County agencies developing affordable housing in transit-oriented development through DURF's Regional State Infrastructure Subaccounts. Coupled with the increase in tax rates, it would do this without jeopardizing the current amount from conveyance taxes that feed the State General Fund. This funding also allows for cross-subsidization of affordable housing investments in TOD Pilot Areas, especially those where market conditions and affordable housing are obstacles to value capture financing tools in the near term. Earmarking an additional share of tax revenue to infrastructure would provide a regular funding stream to a statewide infrastructure pool or fund, as discussed in Recommended Action 4. This would enable the counties to obtain funding or financing for a range of infrastructure improvements needed for housing and other development in TOD Pilot Areas.

2. EXPAND INFRASTRUCTURE FUNDING CAPACITY OF TOURISM-RELATED TAXES

Increase the existing cap on the TAT surcharge rate Counties are authorized to adopt and authorize them to adopt a surcharge over the rental motor vehicle surcharge tax.

Current landscape: HRS §237.D authorizes Counties to establish, through an ordinance passed by County Councils, a surcharge of up to 3% on the State's TAT 10.25% rate. All counties now collect a TAT surcharge of 3%. The use of TAT surcharge revenues is not restricted by State law or County ordinances, and Counties have this revenue allocated to their General Funds.[21]

HRS §251 also authorizes the State to charge a rental motor vehicle surcharge tax. The rate ranges from $5 to $5.50 per day, or a portion of a day for all lessees. The rate will increase $0.50 each subsequent year until December 31, 2027. All revenues are collected by the State and assigned to the State highway fund.[22] Counties are not authorized to charge a surcharge over this tax.

There have also been prior attempts to pass a "Green Fee" at the State legislature. Policy ideas included a per-head charge for tourists to enter the State, paid either via airlines or accommodations, or a charge to enter State parks.[23]

Barriers to TOD-funding and financing posed by the current landscape:

- The existing cap on TAT as well as Counties' lack of authorization to implement a surcharge on other tourism-related taxes, most notably a rental motor vehicle surcharge tax, restricts Counties' ability to raise funds for capital expenses independently from State actions.
- Counties rely on revenue from TAT surcharges to fund existing programs and are unable to redirect those funds towards TOD-related investments. Moreover, per accounts from County agencies, County governments are expected to use TAT-related revenues for tourism-related activities, as opposed to TOD, housing, or other County needs.

[21] City and County of Honolulu, ACFR 2022. County of Maui, ACFR 2022. County of Kauaʻi, ACFR 2022. County of Hawaiʻi, ACFR 2022.
[22] State of Hawaiʻi, ACFR 2022.
[23] Beat of Hawaii, April 29, 2023, "$50 Hawaii Green Fee Dead | What's Hawaii's Next Plan?"

Figure 10 | Expanding Funding Capacity of Tourism-Related Taxes

Recommended Actions	Benefits and Implications
Amend State law to increase the TAT surcharge rate Counties are authorized to adopt.	Counties have limited means to collect revenues for TOD investments and affordable housing, and rely heavily on RPT to fund County services. Increasing the existing 0.5% surcharge rate would give the Counties more flexibility in calibrating their tax structure and obtain more resources for capital improvements.
Authorize a County surcharge rate over the existing rental motor vehicle tax, and require Counties direct all or a portion of this additional revenue for affordable housing-enabling infrastructure and transportation and access improvements in TOD areas. Include an exemption on the surcharge for State residents.	Encourage the use of proceeds to fund and finance TOD- and housing-enabling infrastructure, as opposed to tourism-related activities or operational and maintenance expenses.

3. AUTHORIZE TIF AND ALLOCATE OF REVENUES FOR INFRASTRUCTURE IN AREAS OF NEED

State-level Action. *Authorize a ballot measure for a State constitutional amendment that permits Counties to issue TIF bonds and excludes those bonds from counting towards County debt limits. If approved, amend TIF statute to allow TIF districts to have non-contiguous boundaries, enable the use of revenues outside the TIF district, particularly in priority areas, and allow capture of State GET and TAT revenue generated within district to encourage counties to use TIF and increase its impact.*

County-level Action: *Consider adopting TIF ordinances that include a "but-for" test to avoid TIF being utilized in communities in which development could happen without the use of TIF, a net fiscal impact finding requirement to mitigate the risk of needing other areas to subsidize the cost of public service provision in TIF areas, and a requirement that a certain portion of TIF revenues be allocated to a countywide affordable housing fund.*

Current Landscape: HRS Chapter 46 grants Counties the ability to implement TIF. However, the State Attorney General determined that the State Constitution is unclear on whether counties can legally issue TIF bonds. Without a State constitutional amendment, County issuance of TIF bonds may be subject to legal challenges. Moreover, County debt limits are established by the State Constitution and set at 15% of the counties' total assessed real estate value.[24] While there are some enumerated exceptions to those limits, TIF bonds are not an exception.[25]

While GO bonds may present lower borrowing costs and may be easier to administer than revenue bonds, TIF bonds are able to ring-fence incremental tax revenue from an area – meaning that new development directly helps pay for the cost of that public investment. This may be more politically palatable than County GO bonds, which are supported generally by all County taxpayers.

Barriers to TOD-funding and financing posed by the current landscape:

- County governments currently cannot regulate and implement TIF without the threat of legal challenges. Even if TIF were clearly authorized, TIF bond capacity is restricted because their amounts are counted towards County debt limits, even if the bonds do not imply a risk to the overall fiscal health of the County (TIF bonds are usually secured by a lien on property tax originating from the TIF district, and in the event that this revenue is not enough, the County is not responsible to cover the shortfall using other proceeds).

[24] Hawai'i State Constitution, Article VII, Section 13.
[25] Idem.

- Even with legal authorization, the potential for the use of TIF in priority areas would still be limited if they present low demand for market-rate development and demand for income-restricted or workforce-oriented housing, where the magnitude of the assessed values limit revenues available for areawide infrastructure.
- County governments rely heavily on revenue from real property tax rates. As a result, Counties have expressed concerns about the earmarking of RPT revenues, their future capacity to fund government services (and the potential need to raise taxes to maintain current levels of public service provision), and potential impacts to their bond ratings. Counties have also expressed concerns about having an excessive number of communities advocating for the use of TIF if it is authorized.
- There is a misconception that implementing TIF results in new taxes. This is not the case – TIF instead allocates the growth in property tax revenues from new development and property appreciation. However, this misconception may cause political and community opposition against implementing TIF.

Figure 11 | Expanding Funding Capacity from Tax Increment Financing

Recommended Actions	Benefits and Implications
State- and County-Level	
Conduct outreach and education to dispel misconceptions about TIF (e.g., clarifying that TIF is not a new tax) and to raise support not only for an enabling State Constitutional amendment, but also for passage of County TIF ordinances.	A State Constitutional amendment requires two-thirds majority support in the legislature (or simple majority support in two legislative sessions), as well as a majority popular vote – significant political hurdles. Passing an amendment authorizing TIF will require a rigorous outreach and education campaign. Moreover, Counties (besides the County of Hawaiʻi) will need to adopt ordinances authorizing the use of TIF, whose passage will also require outreach and education to gather necessary political support.
State-Level	
Pass legislation for a ballot measure amending the State Constitution authorizing County use of TIF and exclusion of TIF bonds from County debt limits.	Allows Counties, should a majority of voters authorize it, to implement TIF and issue TIF bonds with greater assurance as to their legality. Exemption from County debt limits enhances TIF bonding capacity. Unlike CIP, which is restricted to supporting publicly owned infrastructure, revenues from TIF can be used to fund site-specific,

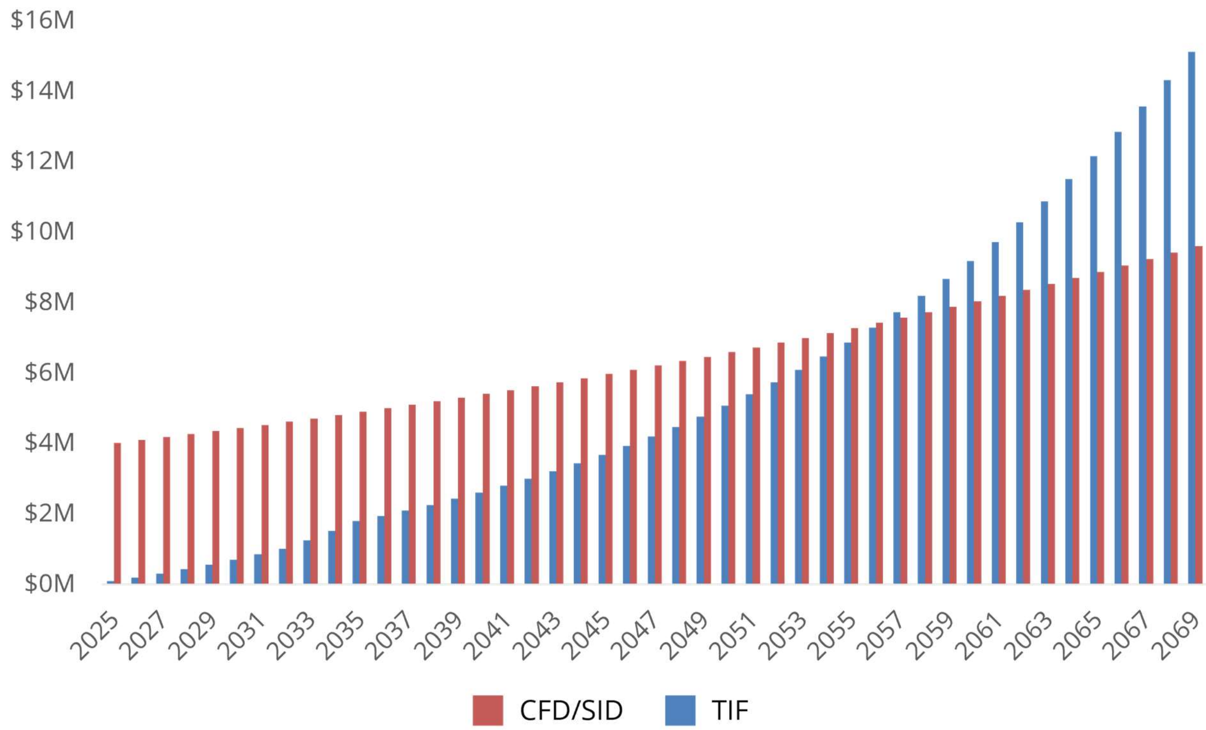
Recommended Actions	Benefits and Implications
	privately-owned, or utility-owned infrastructure that is for public use and/or supports individual developments.
Amend the TIF statute to explicitly allow the formation of TIF districts over non-contiguous areas and for funding of projects outside the areas from where tax revenue is generated. (This is known as "District Improvement Financing" (DIF) in Massachusetts. In a DIF District, tax increment revenue is raised from an "Invested Revenue District" and is allocated to a "Development District."[26])	TOD infrastructure needs can be in areas in which the State or Counties want to prioritize construction of workforce-oriented and/or income-restricted residential units. However, these developments will tend not to generate sufficient RPT revenues to sustain bond issuances that can, by themselves, fully finance areawide infrastructure requirements. The proposed amendment to the legislature would allow part or all incremental RPT revenue from areas with high-valuation development and/or higher proportion of non-occupied homes to be used in areas of need and/or priority TOD areas. **Relevant precedents (see Appendix 1):** • Massachusetts District Improvement Financing • Maine Housing Authority Affordable Housing Tax Increment Financing • Dallas TOD TIF District • California's Enhanced Infrastructure Financing Districts
Amend TIF statute to allow for State taxes such as GET and TAT, and not just RPT, to be captured through TIF.	Allowing capture of incremental GET and TAT revenue in TIF districts could further encourage Counties to implement TIF because it would allow them to use a State revenue source (GET and TAT) in addition to RPT to finance infrastructure needs. Moreover, in areas with a significant pipeline of retail development or projected increases in foot traffic in retail areas, this action would create an additional source of revenue to back the issuance of TIF bonds,

[26] Massachusetts Development Finance Agency, 2019, "District Improvement Financing (DIF) Guide: A Guide to Using DIF in Massachusetts Towns and Cities."

Recommended Actions	Benefits and Implications
	increasing the size of supportable TIF bond issuances and/or diversifying revenue sources to repay TIF bonds. **Relevant precedents (see Appendix 3):** • Kansas Sales Tax and Revenue (STAR) Bonds • New Mexico and Ohio TIF Laws add State sales taxes (gross receipts tax) in TIF revenues.
County-Level	
Amend County ordinances to: Provide for "but-for" requirement for the use of TIF. This requirement would limit TIF use to when the development and property value appreciation predicted for the area in a TIF-implementation scenario would not occur in the absence of the TIF-funded capital project.	Mitigate concerns of over-utilization of TIF and future depletion of revenues for Counties' general funds by limiting implementation of TIF to those areas where the tax increment/revenues would not occur were TIF not implemented. **Relevant precedents (see Appendix 3):** • Required by law in 32 states (see for instance, Minnesota legislation highlighted in Appendix 3)
Provide for a "net fiscal impact finding" requirement for the use of TIF into their TIF ordinances. This requirement establishes that the costs for the County of providing public services to the additional development catalyzed by the TIF-funded works must be covered by taxes produced in the TIF area and not allocated to the TIF fund. In practice, the requirement implies that not all RPT increment revenue can be allocated to TIF.	Mitigate concerns of TIF increasing fiscal risks for the County and the TIF area requiring subsidies from other areas to cover its cost of providing public services. **Relevant precedents (see Appendix 3)** • LA County EIFD Policy
Dedicate a percentage of TIF revenues to a countywide Affordable Housing Fund or similar mechanism.	Supports Counties in achieving affordable housing production goals and ensuring TIF implementation provides benefits to other areas of the County (and not just the TIF district). **Relevant precedents (see Appendix 3)** • West Carson (CA) Enhanced Infrastructure Financing District

Recommended Actions	Benefits and Implications
Regarding staffing, train in-house finance and/or planning staff to manage the TIF formation process. Should a TIF District require the formation of a governing board, these staff could be appointed to it. Moreover, retain existing municipal finance advisors to facilitate TIF bonding process.	While the Consultant Team cannot provide precise staffing estimates because they vary according to local context, Counties rarely need to hire net new staff in-house to facilitate TIFs. On the consulting side, municipal finance advisors are typically the most important for TIF formation and are typically paid out of the bond issuances. Counties will not need additional funds appropriated for their services. Note that some jurisdictions limit the administrative costs of TIF. This limit can be expressed as a percentage of the TIF District's tax increment. **Relevant precedents (see Appendix 3):** • Limits to administrative expenses in Minnesota TIF law
Where appropriate, consider overlaying a CFD or SID over TIF to raise short-term financing as absorption of new development and tax revenues ramps up (and with it, TIF revenues).	CFDs can be overlaid with TIF to finance infrastructure costs in the short term. This is particularly appropriate where TIF revenues and financing are substantial over the duration of a TIF District but are limited in the short term due to the slow ramp-up of development, as is the case in the Ane Keohokalole Highway corridor. CFDs can provide revenue in the short-term while absorption of new development and tax revenues ramp up, at which point any assessment -related debt could be replaced by TIF debt, alleviating the CFD-related tax burden on property owners. See Figure 12 for an illustrative representation of the ramp-up of revenues from each source. **Relevant precedents (see Appendix 3):** • Salesforce Transit Center TIF + CFD overlay.

Figure 12 | Illustrative* Representation of Ramp-Up of Revenues for CFD/SID overlay over a TIF District



**Revenue figures and years shown are conceptual and do not refer to a specific development scenario.*

4. CREATE A TOD INFRASTRUCTURE REVOLVING FUND

Enact and establish a statewide TOD infrastructure revolving fund that is capitalized by dedicated revenue sources and that has a governance structure that includes all Counties. Study whether to house such a fund in a State infrastructure bank, which could also have other financing tools, as well as issue infrastructure grants.

Current Landscape: Hawaii has several State-level revolving funds to finance development and infrastructure projects, including:

- Dwelling Unit Revolving Fund (DURF) Regional State Infrastructure Subaccount (HRS §201H-191.5): Housed within HHFDC, DURF's original mandate was to provide financing for real estate acquisition and development. In 2016 the State Legislature created a DURF subaccount to finance infrastructure projects, "that would increase the capacity of… infrastructure facilities, including regional sewer systems, water systems, drainage systems, roads, and telecommunications and broadband." (HRS §201H-191.5(c)).
- Rental Housing Revolving Fund (HRS §201H-202): Awards competitive equity-gap low-interest loans to owners and developers to construct affordable housing.
- Hawaiʻi Green Infrastructure Authority (HGIA): HGIA is "Hawaiʻi's Green Bank." Initially capitalized by a $150M bond in 2014, HGIA provides financing for energy efficiency upgrades for residents, businesses, nonprofits, and other State agencies.[27]
- Hawaiʻi Community Development Authority (HCDA) Special Fund (HRS §206E-16): All receipts and revenues of the HCDA are deposited into a special fund, to be used for HCDA programs (e.g., community redevelopment, leasing, and management) in legislatively established development districts.
- TOD Infrastructure Improvement District Special Fund (Act 184, SLH 2022):
- Drinking Water State Revolving Fund (DWSRF): Housed within the State Department of Health, the DWSRF provides low-interest loans for the construction of drinking water infrastructure projects.[28]
- Clean Water State Revolving Fund (CWSRF): Housed within the State Department of Health, the CWSRF provides low-interest loans to County and State agencies for the construction of water pollution control projects, including wastewater facilities.[29]

Act 184, SLH 2022 established a new TOD Infrastructure Improvement District Special Fund, administered by HCDA, to support development, construction, and improvement of TOD-enabling infrastructure within one-half mile radius of proposed or existing transit stations

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[27] Hawaiʻi Green Infrastructure Authority, 2023, About Us.
[28] Hawaiʻi Department of Health, 2023, Drinking Water State Revolving Fund.
[29] Hawaiʻi Department of Health, 2023, Clean Water State Revolving Fund Program.

and the levying of assessments on properties within such districts,[30] which revenues would be deposited in the Special Fund. In the City and County of Honolulu, the infrastructure improvement districts can only be created in proximity to Skyline rail stations.[31] Despite the name, this fund is not a TOD infrastructure fund which can provide funding and financing to infrastructure projects statewide or cross-subsidize projects in priority areas.

Barriers to TOD funding and financing posed by current landscape:

- The DURF regional infrastructure subaccount is close to being a dedicated TOD infrastructure revolving fund, but it does not have regular revenue sources, relying instead on funds from the greater DURF fund.[32]
- There are few infrastructure financing mechanisms that allow County participation in directing State revenues towards County priorities or priority areas.

Figure 13 | Expand Funding Capacity with a TOD Infrastructure Revolving Fund

Recommended Action	Benefits and Implications
Establish a State-level TOD infrastructure revolving fund that provides low-interest loans and grants to Counties for them to prioritize infrastructure funding/financing in disadvantaged or priority areas to advance affordable housing and mixed-use development in TOD areas.	Creates a dedicated financing source for TOD-enabling infrastructure projects. Over time, as the financing capacity of the TOD Fund grows, the TOD Fund may be able to package loans to multiple projects at once and borrow at higher volumes than individual Counties, reducing borrowing costs – a benefit that can be passed on to Counties' TOD infrastructure projects. **Relevant precedents (see Appendix 1)** • County of Kauaʻi Housing Revolving Funds
Dedicate regular revenue source(s) to capitalize the fund, such as a portion of conveyance tax, GET, and/or TAT.	Creates a regular funding source to grow the corpus of the TOD infrastructure revolving fund, increasing the amount of money available and providing predictability to its funding streams.
Governance structure would include County-appointed representatives to participate in decision-making over use of funds.	Provides funding for TOD in areas where implementation of districtwide funding tools (TIF, CFD, additional fees) is not feasible given market conditions and infrastructure governments and prioritizes Counties with largest needs. can act to cross-subsidize from

[30] Act 184, SLH 2022 §§206E-C(b), 206E-F(b)
[31] Act 184, SLH 2022 §206E-C(b).
[32] Hawaiʻi Administrative Rules §15-307-242(c).

Recommended Action	Benefits and Implications
	high-income/high-growth areas to priority areas for investment. A potential funding structure to consider is allocating funding according to population, but also according to County regions, with at least one project per region per year, so that areas beyond population centers also get projects funded. **Relevant precedents (see Appendix 1)** • Bay Area Housing Finance Authority (demonstrates potential revenue-sharing structure).
Consider whether to create a State infrastructure bank, which could house the TOD infrastructure revolving fund in addition to other infrastructure financing tools and grants.	A State infrastructure bank could potentially have certain advantages, such as the ability to: • Package many loans together, reducing borrowing costs, and passing savings on to individual infrastructure projects. • Offer more products than a fund (e.g. loans with low and high interest, grants, etc.) • Calibrate its offerings to the exact amount of incentive or funding a project needs. • Issue bonds. Consolidating the State's various infrastructure revolving funds would be a complex task that would require significant buy-in and advance planning. However, this could create operational and administrative efficiencies for infrastructure financing over the long term. **Relevant precedents (see Appendix 1)** • Rhode Island Infrastructure Bank

5. EXPAND INFRASTRUCTURE FUNDING CAPACITY OF GET SURCHARGE REVENUES

Amend State law to provide more flexibility on the use of County GET surcharge revenues, remove the sunset over GET surcharge collection, and increase the existing cap on the surcharge rate Counties are authorized to adopt.[33]

Current Landscape: HRS §237-8.6 authorizes Counties to establish, through an ordinance passed by County Councils, a 0.5% surcharge on the State's General Excise Tax (GET) until 2030. All counties now collect a GET surcharge. The use of GET surcharge revenues is restricted by State law and County ordinances as follows:

- HRS §46-16.8: Authorizes County GET surcharge revenues to be used for public transportation systems (operating and capital costs), Americans with Disabilities Act compliance, and, only in the case of Maui, housing infrastructure costs (excluding sharing costs with housing developers).
- City and County of Honolulu Revised Ordinances §§6-60 and 6-61: Allocates all proceeds to HART rail project.
- County of Maui Ordinance No. 5551: Allocates proceeds to housing and transportation infrastructure, with 20% of revenues reserved to support Dept. of Hawaiian Homelands homestead development.
- County of Kauaʻi Ordinances §5-3 and County of Hawaiʻi Ordinances §§2-233 through 2-236: Allocates proceeds to transportation infrastructure.

Barriers to TOD-funding and financing posed by the current landscape:

- The existing cap on GET restricts Counties' ability to raise funds for capital expenses independently from State actions.
- Counties cannot use proceeds from the GET surcharge to issue bonds for capital expenses, given that this revenue source is currently ending in 2030, and County-issued bonds are usually issued for a minimum term of 30 years.
- Except for Maui, Counties cannot use funds to subsidize housing-related infrastructure. Moreover, current provisions prohibit these funds from being used to subsidize costs over infrastructure that would enable specific housing developments to be viable and are typically borne by developers. The flexibility in the proposed legislation would allow Counties to operate more freely. Note, however, all Counties except Maui already earmark the proceeds from the existing

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[33] Because the City and County of Honolulu's GET surcharge revenues are currently fully allocated to the HART rail project, this recommendation is initially targeted to the Neighbor Islands.

0.5% surcharge to existing programs (HART in the City and County of Honolulu, roads in the Counties of Kauaʻi and Hawaiʻi), and have not expressed willingness to divert revenue from funding existing programs.

Figure 14 | Expanding Funding Capacity of the GET Surcharge

Recommended Action	Benefits and Implications
Amend State Law to permit Counties to collect GET surcharge revenues indefinitely.	County bonding capacity is enhanced because GET surcharge revenues no longer have an end date.
Amend State Law to increase the GET surcharge rate Counties are authorized to adopt.	Counties have limited channels to collect revenues for TOD investments and affordable housing. Increasing the existing 0.5% surcharge rate cap would give Counties more flexibility in calibrating their tax structure and obtain more resources for capital improvements.
Amend State law to authorize surcharge revenues for projects across all types of infrastructure (not only housing and transportation), as well as removing the provision that prevents the use of funds to subsidize enabling infrastructure for targeted housing projects, while retaining limitation of use of GET surcharge revenues to capital projects.	If they choose to, Counties can amend their GET surcharge ordinances to any infrastructure use. Moreover, Counties would be authorized to use GET surcharge revenues to share housing infrastructure costs with housing developers, potentially expanding the pool of funds available for infrastructure development. Given that Counties have this money allocated to existing programs, this flexibility in uses is unlikely to yield practical results unless it is coupled with an increase in the surcharge rates Counties are authorized to adopt.

RECOMMENDATIONS FOR COUNTY-LEVEL ACTION

6. ENCOURAGE CFDs TO FINANCE HOUSING-ENABLING INFRASTRUCTURE

Explore formation of CFDs by identifying areawide critical infrastructure needs, streamlining the entitlement process, and, when market circumstances permit, tie rezonings to the formation of a CFD that can fund areawide infrastructure.

Current Landscape: CFDs are authorized in each County under State law and County ordinances.[34] CFDs have been implemented twice in the State for the creation of enabling infrastructure for greenfield projects (i.e., development on vacant parcels or that involve the complete repurposing of existing structures on the site), including the Kukui'ula resort in the County of Kauaʻi (formed in 2008), and the Kaloko Heights master-planned mixed-income development in the County of Hawaiʻi (formed in 2022). The formation of CFDs requires the approval of at least 45% of landowners in all Counties.[35] The existing CFDs were established for projects whose lands were held by single landowners. Conversely, an attempt in 2023 to create a CFD in Kahana Bay (Maui) to protect existing condo units from coastal erosion[36] failed due to the lack of appetite among a majority of the multiple unit owners.[37]

While usually allowed in jurisdictions that permit CFDs, local governments do not typically initiate CFD formation because there are considerable expenses involved with establishing one (e.g., determining the CFD special tax rate and apportionment is a complex, resource-intensive processes), and the risk that landowners within the CFD may not approve its formation. Rather, CFD formation is typically initiated by private developers and/or landowners who wish to build greenfield developments in areas without adequate enabling infrastructure. CFD formation must consider the following practical considerations:

a) CFD formation requires the consent of 45% of landowners in Hawaii. Therefore, CFD formation is typically most feasible when formed over landholdings with highly-concentrated or single ownership;
b) CFDs are formed to pay for public improvements, therefore developers/landholders must create infrastructure master plans to identify and quantify the costs of those needs;

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[34] HRS §46-80.1

[35] While 25% of property owners are required for approval, a protest vote against CFD formation can succeed with 45% of owners against, making the effective threshold for approval 45%. Revised Ordinances of Honolulu, § 27-2.9; Maui County Code, Chapter 3.75.180; Kauaʻi County Code, §26-2.9; Hawaiʻi County Code, §32-27.

[36] Honolulu Civil Beat, March 18, 2022, "Maui Condo Owners Want to Tax Themselves to Save Their Homes From Rising Seas."

[37] Account from County agencies.

c) Once infrastructure needs are identified, special tax rates and a method of apportionment across parcels are established (typically by the developer) and approved by County Councils; and
d) Counties will issue CFD bonds to provide upfront financing for infrastructure needs, to be paid off by CFD special taxes over time. Usually, the Counties have no obligation to pay debt service on the bonds if collections of the Special Tax are insufficient for such purposes.

Among the TOD Pilot Areas of this study and given current real estate market conditions and known development pipeline, the Consultant Team found that a CFD is financially feasible in Iwilei-Kapālama (City and County of Honolulu) and the Ane Keohokalole Highway Corridor (County of Hawaiʻi), given existing plans for master-planned developments and the presence of moderate to high demand for new residential units. Moreover, the Consultant Team found through conversations with County Agencies that the key roadblock for CFDs in these areas were: a) uncertainty about the entitlement process; and b) the lack of areawide infrastructure (for example, water and sewer lines in the Ane Keohokalole Highway Corridor), which prevented developers of master planned developments to move their plans forward. In other areas studied – including in Maui and Kauaʻi – the Consultant Team found that CFDs were not feasible due to weak market conditions for new housing development and their corresponding levels of income and returns, which were not enough to absorb the additional cost of a CFD special tax.

Barriers to TOD-funding and financing posed by the current landscape:

- For **infill projects**, the reticence of existing property owners to pay additional land-related taxes. This experience aligns with that of CFDs in other States, where CFDs are mostly used to finance infrastructure for new, greenfield projects with one landowner or few landowners.
- For **greenfield projects**:
    - The limited pipeline of real estate development opportunities catering to a middle-income bracket for which a CFD is both feasible and convenient (upscale for-sale units may not need a CFD if the developer can afford to pay for enabling infrastructure upfront, and affordable developments do not have a profit margin that allows them to pay the extra tax liability);
    - Uncertainty over entitlements, infrastructure requirements, and its related costs that discourage the emergence of greenfield opportunities and their use of CFDs;
    - Lack of areawide infrastructure that precludes the construction of site-specific enabling infrastructure, which CFDs typically fund; and

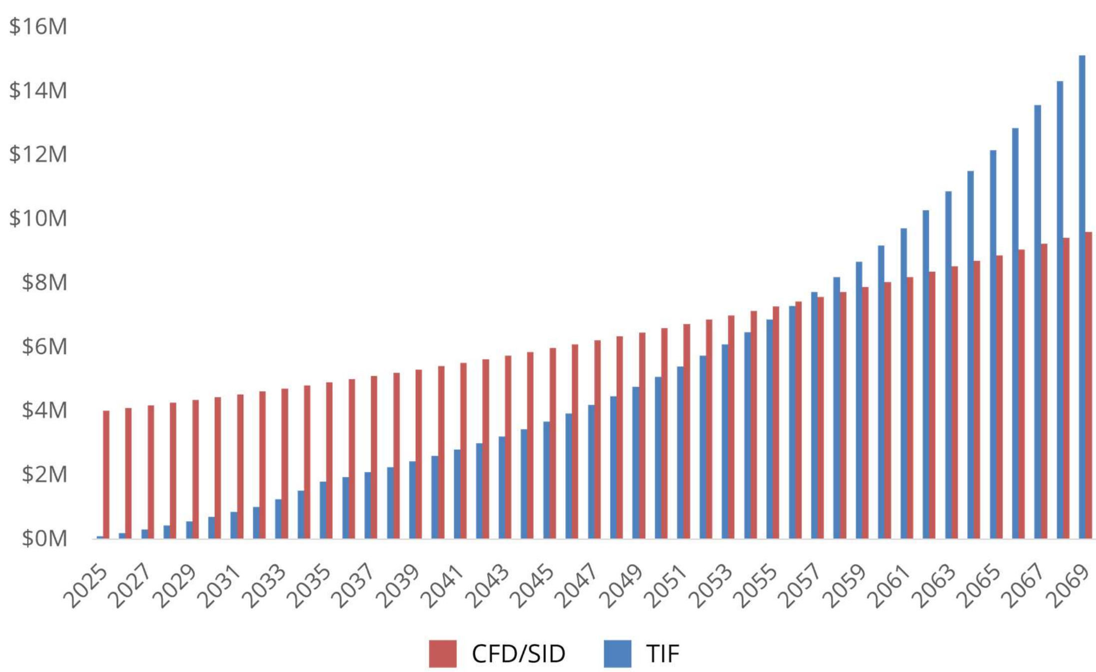
- Expectations from developers – given historic patterns of investments by the County and developer agreements – that the public sector may pay for part of site-enabling infrastructure costs.

Figure 15 | County Recommended Actions on CFDs

Recommended Action	Benefits and Implications
Identify priority infrastructure that is a pre-requisite for specific site infrastructure typically funded by CFDs.	By building enabling infrastructure, Counties can clear the path for private developers to use CFDs for site infrastructure, unlocking new development. Unlike CIP, which is restricted to supporting publicly owned infrastructure, revenues from CFDs can be used to fund site-specific, privately-owned or utility-owned infrastructure that is for public use and/or supports individual developments. **Relevant precedents (see Appendix 1):** • Iwilei Infrastructure Implementation Master Plan
Hire and/or train County staff to manage CFD formation process and oversight, including, regulatory compliance, formation and operations, and bond issuance. Should a CFD require the formation of a governing board, these staff could be appointed to it. Moreover, retain existing municipal finance advisors to facilitate CFD bonding process.	Eliminate potential gaps in County capacity to handle the CFD formation process. While the Consultant Team cannot provide precise staffing estimates because they vary according to project context, Counties rarely need to hire net new staff in-house to facilitate CFD formation. Moreover, municipal finance advisors are typically the most important consultant required for CFD formation and are typically paid out of the bond issuances. Counties will not need additional funds for their services.
Where market conditions allow, require CFD formation as a pre-requisite for entitlements and rezoning. Depending on the case, CFD proceeds could fund not only specific site infrastructure but also district- or community-wide projects.	Provide incentives for developers to pursue a CFD, employing more private dollars to fund enabling infrastructure, and enabling the public sector to use its limited resources for other purposes. **Relevant precedents (see Appendix 1):** • San Francisco's Salesforce Center CFD

Recommended Action	Benefits and Implications
Where appropriate, consider overlaying a CFD over TIF to raise short-term financing as absorption of new development and tax revenues ramps up (and with it, TIF revenues).	CFDs can be overlaid with TIF to finance infrastructure costs in the short term. This is particularly appropriate where TIF revenues and financing are substantial over the duration of a TIF District but are limited in the short term due to the slow ramp-up of development, as is the case in the Ane Keohokalole Highway corridor. CFDs can provide revenue in the short-term while absorption of new development and tax revenues ramp up, at which point any assessment -related debt could be replaced by TIF debt, alleviating the CFD-related tax burden on property owners. See Figure 16 for an illustrative representation of the ramp-up of revenues from each source. **Relevant precedents (see Appendix 1):** • Salesforce Transit Center TIF + CFD overlay.

Figure 16| Illustrative* Representation of Ramp-Up of Revenues for CFD/SID overlay over a TIF District



**Revenue figures and years shown are conceptual and do not refer to a specific development scenario.*

7. PROMOTE BID CREATION TO ENHANCE LAND VALUE AND ATTRACT DEVELOPMENT

Explore and promote creation of BIDs to fund services, streetscape improvements, and public parking works that can enhance real estate demand as well as the feasibility of infill development and implementation of value capture tools, particularly in existing commercial and mixed-used areas.

Current Landscape: Value capture measures only work as an infrastructure financing tool when real estate development programs generate sufficient profits. Developers will only pursue a real estate project if the return on their investment is still sufficient after, say, paying a CFD special tax, and TIF can only provide meaningful revenues if new development occurs. For instance, the Consultant Team found that development programs for the Līhuʻe Town Core (County of Kauaʻi) and the Kaʻahumanu Avenue Community Corridor (County of Maui) would not generate sufficient profits to make value capture tools viable. In these types of areas, where measures like CFD or TIF are not currently economically feasible, Counties can lay the groundwork for their future implementation by forming BIDs.

BIDs are created after commercial property owners within an area – usually a Downtown or retail/commercial cluster – consent to a special assessment in exchange for supplemental services and improvements in addition to what governments already offer. While they cannot fund capital investments, the services that BIDs provide – which usually include events, street cleaning, parking management, and streetscape infrastructure works – can increase an area's appeal for real estate development, enhancing development feasibility, and eventually making it suitable for value capture infrastructure financing.

Across all counties in Hawaii, to form a BID County Councils must pass an ordinance that defines the boundaries of each BID, how special tax assessments are going to calculated (e.g., as a percentage of properties' assessed value), as well as any limits to special tax assessments charged. There are several BIDs in Oahu (Chinatown Improvement District, Kailua Village Business Improvement District, Fort Street Mall Business Improvement District, and Waikiki Business Improvement District) and one in Hawaii County (Kailua Village Business Improvement District).

Barriers to TOD funding and financing posed by current landscape:

- The creation of BIDs is limited to existing commercial areas because they are funded by assessments paid by businesses in their district. They cannot be used in areas with little existing development, or areas without a commercial presence.
- A strong education and outreach campaign is needed to make the case for a BID among a majority of business owners, given that BID creation requires that business owners pay an assessment on top of regular taxes.

Figure 17 | County Recommended Action on BIDs

Recommended Action	Benefits and Implications
Identify the boundaries of retail/commercial clusters that would be suitable for BID creation, as well as non-profit and private sector partners who could support Counties in BID creation.	Create target geographies for BID formation to focus County staff outreach efforts to promote BID formation. For example, the Consultant Team found that the TOD Pilot Areas in the Counties of Kauaʻi (Līhuʻe Town Core) and Maui (Kaʻahumanu Avenue Community Corridor) would benefit from the creation of a BID, since the services BIDs provide could enhance their real estate demand and eventually make these areas suitable for value capture. Given that the public sector has limited capacity, existing civic groups like business associations, as well as the private sector, could be partners in BID creation efforts. For example, the Rice Street Business Association in Kauaʻi could transition into a BID. **Relevant precedents (see Appendix 1):** • The proposed Wailuku Partnership Community Development Corporation, a governance structure that could serve as a model.
Conduct outreach to commercial property owners and business associations to convey the benefits of BID formation, or where efforts already exist, to convey support.	Public education and outreach will be necessary to secure the minimum threshold of property owners necessary to approve BID formation, established by County ordinances (over 50% in the Counties of Maui and Hawaiʻi, over 51% in the City and County of Honolulu, and over 55% in the County of Kauaʻi). Counties should partner with non-profits and the private sector and leverage their networks to conduct outreach for BID creation.

8. CONSIDER IMPLEMENTATION OF IMPACT FEES

Examine instituting an impact fee system at countywide levels and making the implementation of these fees more predictable across developments.

> **What are Impact Fees?**
> Impact fees are one-time charges levied by local governments on new development. Their use requires passing a "nexus test" – demonstrating that new development imposes growth-related infrastructure and public service costs, and that the impact fees charged are proportionate to those costs. Impact fees are levied on a formula basis against specified categories of development in a specified area, rather than on an ad-hoc discretionary basis. The schedule of fees is updated regularly as conditions change. Impact fees are not common in Hawaiʻi, but are widely implemented in at least 29 States, and are very common in California.[38]
>
> Note that <u>impact fees are not "developer contributions" paid in exchange for certain incentives such as zoning changes or new entitlements</u>, which are common in Hawaii under the umbrella of Development Agreements (HI Rev Stat § 46-126). Unlike negotiated developer contributions, impact fees can be used to pay for off-site services such as local roads, schools, or parks. Moreover, development impact fees are typically determined through a formulaic process, rather than through negotiations as done for developer contributions.
>
> While governments give up some discretionary authority by shifting from a developer contribution regime to an impact fee regime, they still maintain control over updating fee schedules as context changes. Moreover, impact fees are more predictable than developer contributions, both for governments in terms of revenues received, and real estate developers in terms of expected expenses, and do not involve negotiation periods, expediting production of housing and other real estate.
>
> Lastly, <u>impact fees are not utility user charges</u> - like charges to customers per unit of water, electricity, etc. provided - <u>or one-time fees for the use of specific public service</u> (for instance, wastewater system facility charges in the City and County of Honolulu).

Current Landscape: The existing policy framework at the State level allows Counties to adopt impact fees (HRS §346-141). Their implementation varies by County:

- In the **City and County of Honolulu**, impact fees are only allowed to be charged in the ʻEwa region[39] In ʻEwa, the main use of proceeds has been for highway improvements in East Kapolei, where the fee is assessed on nearby housing and commercial development to fund the additional infrastructure needs associated with the growth spurred by highway construction.

[38] Manhattan Community Board 1 and Fund for the City of New York. 2018. "Developmental Impact Fees."
[39] Revised Ordinances of Honolulu, §33A.

- The **County of Maui** allows impact fees for traffic and roadway improvements to be charged in seven areas of the County.[40] However, fees are not currently being collected given that the required studies to define them have not been conducted.[41]
- The **County of Kauaʻi** does not have an impact fee regime. Instead, the County imposes developer contributions on a project-by-project basis.[42]
- The **County of Hawaiʻi** does not have an impact fee regime. Instead, the County negotiates one-time "fair-share" developer contributions on a case-by-case basis, usually in the context of rezonings.[43]

Moreover, the State's Department of Education (DOE) has its own impact fee program.[44] Developers can either pay a fee or provide land to contribute to the cost of building new or expanding existing DOE facilities, with DHHL affordable housing projects exempted from the fees. The DOE has so far identified four impact districts across Oʻahu and Maui.[45]

Barriers to TOD funding and financing posed by current landscape:

- Existing policies in Counties do not facilitate broad and streamlined implementation of impact fees at the countywide levels; instead, one-time contributions (called developer contributions, or "fair share" in the case of Hawaiʻi County) are negotiated with developers within the context of developer agreements and rezonings. These contributions are usually used to fund on-site infrastructure and public benefits, unlike impact fees, whose revenues can fund off-site projects.
- Although not possible to fully determine within the reach of this study, Counties' current reliance on ad-hoc and case-by-case developer contributions, as opposed to impact fees, may limit the amount of developers' profits that can be captured through fees and assessments. Unlike impact fees, developer contributions are not charged on development taking place within authorized zoning rules and provide flexibility that developers can take advantage of to negotiate a lower than potential fee.
- Implementing the fees requires studies that determine the amount of fees each typology of new property should pay. In the only County where impact fees are authorized within multiple areas – Maui – these studies have not been conducted.
- Because they are an added expense, impact fees can threaten the viability of new real estate development if market conditions are not strong enough. In weaker market conditions, impact fees can reduce expected returns on development projects to the point of non-viability. Moreover, affordable housing cannot absorb

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[40] Maui County Code Chapter 14.74.
[41] According to County Agencies.
[42] According to County Agencies.
[43] See, for example, Hawaii County Ordinance 15-118, a copy of which is available here.
[44] Act 245 SLH 2007.
[45] DOE, School Communities, accessed November 1, 2023

impact fees due to its low profit margins and reliance on subsidies. Therefore, significant revenues from impact fees can only be expected in areas with substantial commercial and market-rate residential development.

Figure 18 | County Recommended Actions on Impact Fees

Recommended Action	Benefits and Implications
Commission studies that inform the potential amount of impact fees per unit and square feet, including assumptions on the type of infrastructure the fees can fund.	In addition to being a pre-requisite for any impact fee program, the results will allow decision-makers to gauge the extent to which development can absorb these fees and whether they would represent an additional and prohibitive costs to developers.
Once the studies have been completed, Counties can decide if, where, and at what level to pursue impact fees.	Ideally, impact fees would be set a level that, even if not high enough to fully mitigate the impacts of new development, can partially fund new infrastructure works without threatening development feasibility or increasing the burden of acquiring new housing. Depending on results of the impact fee studies: • City and County of Honolulu may decide to expand its impact fee program from the ʻEwa area to other areas of the Oʻahu; • County of Maui may decide to start charging impact fees on the areas already designed for such program in the County Code, as well as potentially expand the program to other areas in Maui; • County of Kauaʻi may decide to start charging impact fees on selected parts of the island or at the countywide level; and • County of Hawaiʻi may transition from "fair share" approach to a countywide impact fee program. If countywide fees programs are implemented, infrastructure in Iwilei-Kapālama and the Ane Keohokalole Highway Corridor can be partly funded through impact fees, as market-rate residential and commercial development occurs. Moreover, if impact fees largely replace developer contributions, development costs become more predictable, potentially expediting construction of housing and other types of development.

9. ASSESS RECALIBRATION OF PROPERTY TAX EXEMPTIONS FOR CITY AND COUNTY OF HONOLULU

Conduct a countywide rental housing market and feasibility study for Honolulu to evaluate and potentially reassess the existing RPT exemption on all units within mixed-income residential projects with a minimum of 20% of affordable units ahead of the exemption's expiration in 2030. The exemption should aim to strike a balance between different policy priorities, including expansion of rental housing supply, production of affordable units, and generation of tax revenue for capital improvements.

Current Landscape: In the City and County of Honolulu, new mixed-income rental residential projects are fully exempt from property taxes as long as a minimum of 20% of units are designated affordable for households earning at or below 80% of the Area's Median Income. This exemption applies to both market-rate and affordable units within mixed-income developments.[46]

While there are a variety of exemptions and waivers that reduce public revenues, this exemption was chosen for study by the Consultant Team because of its low requirements (20% affordable units) and large impact (full RPT abatement). Others with higher threshold requirements or lower impacts to public revenues, while also important, were not studied.

Barriers to TOD funding and financing posed by the current landscape:
While incentives for affordable housing production are necessary, affordable housing production cannot happen without investments in infrastructure first. Without these investments, the backlog of infrastructure delivery creates potential negative impacts on level and quality of service to residents. The City and County of Honolulu's RPT exemption, while incentivizing affordable housing production, reduces revenues available for infrastructure that would allow affordable housing production. For example, 80% of the development pipeline in Iwilei-Kapālama is likely to be rentals.[47] The Consultant Team's analysis estimates that, while the RPT exemption supports the production of 2,000 affordable housing units, it also reduces potential TIF revenues that could be invested in infrastructure that enables affordable housing construction by 35%.

[46] Revised Ordinances of Honolulu, § 8-10.17.
[47] Consultant Team's analysis, based on Iwilei-Kapālama Masterplan.

Figure 19 | County Recommended Actions on Oʻahu Property Tax Exemption

Recommended Action	Benefits and Implications
The County commissions a rental housing market and feasibility study to: First, evaluate the effects of the existing RPT exemption on the overall rental market and supply of rental units, its outcomes in terms of promoting housing affordability and at what income levels, and its fiscal impact. Second, evaluate a new threshold of affordable units and a level of abatement that still makes development feasible, maximizes production of affordable units, and minimizes the loss for the County in terms of tax revenue. This threshold should consider policy priorities regarding the type and scale of affordable housing needed, as well as the income brackets and geographic areas the County wishes to target. Lastly, the new policy should be reevaluated regularly (for instance, every 5 to 10 years) to adjust to changes in development feasibility and market circumstances.	Reassessing the affordability requirement might yield a new threshold that achieves a better balance between the need to incentivize creation of affordable housing units and generation of revenue to fund for infrastructure projects that are a prerequisite for housing development.
The County decides on the future of the exemption well before its expiration in 2030.	Deciding on the future terms of the exemption before its expiration will help avoid speculation from multifamily developers and avoid stalling development of both market-rate and affordable development. **Relevant precedents (see Appendix 1):** • Expiration of the "421a" RPT Exemption in New York City

10. ASSESS PROGRESSIVE STRUCTURE FOR PROPERTY TAXES

Examine the potential fiscal and housing market impacts of implementing a more progressive property tax structure in the City and County of Honolulu akin to the ones implemented on the Neighbor Islands, with a focus on higher taxation of high-value non-owner-occupied properties and second homes. Continue to assess and monitor the fiscal and housing market impacts of their progressive real property tax regimes on the Neighbor Islands.

Current Landscape: All counties in the State of Hawaiʻi tax primary homes less than secondary homes/investment properties, both through differentiated tax rates and exemptions to homeowners. However, Counties differ as to whether they tax properties differently according to assessed value. For those that do, they differ as to assessed value thresholds and associated tax rates.

- The City and County of Honolulu has a progressive RPT structure, taxing primary residences at the lowest rate and taxing secondary residences/investment properties with an assessed value less than $1 million at a higher rate (and those with an assessed value over $1 million at the highest rate).[48] However, because the median sale price of single-family homes on Oʻahu was $1.1 million in May 2023 (and investment properties likely tend to be worth more than the median), the $1 million threshold is introducing limited progressivity to the County's RPT structure.[49]
- The County of Maui implemented in 2020 a system of assessed value tiers of RPT rates.[50] For residential properties, there are three tax rate tiers (with higher tax rates for properties with higher assessed value) for each type of property type taxed (the types are owner-occupied, non-owner-occupied, and long-term rentals). Owner-occupied property is taxed at lower rates than non-owner-occupied property and long-term rentals. There are other RPT rate categories for condominiums, time shares, hotels and resorts, and short-term rentals, which are generally higher than residential tax rates.
- The County of Kauaʻi implemented a progressive RPT structure in 2023. While residential and homestead properties are taxed at a single rate regardless of assessed value, vacation rental properties are taxed different rates according to

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[48] City and County of Honolulu Department of Budget and Fiscal Services, Real Property Assessment Division, 2023, "Real Property Tax Rates for Tax Year July 1, 2023 to June 30, 2024."
[49] Honolulu Star Advertiser, June 7, 2023, "Oahu median home price tops $1M again amid high rates."
[50] Progressive RPT was first implemented in the County of Maui in 2020 with County Council Resolution 20-72. A copy of that document is available here: https://www.mauicounty.gov/DocumentCenter/View/122028/2020-Tax-Rate. The current RPT structure is outlined in Maui County Council Resolution 23-129, FD-1. A copy of that document is available here: https://www.mauicounty.gov/DocumentCenter/View/141482/2023-Tax-Rate

their assessed value, with three tax rate tiers (assessed value up to $1 million, above $1 million up to $3 million, and above $3 million).[51]

- In 2020, the County of Hawaiʻi implemented a progressive residential RPT structure. There is one tax rate for homeowner properties and two, higher-rate tiers for non-homeowner residential properties (one rate for homes with assessed value up to $2 million, and another for properties with assessed value over $2 million).[52]

Barriers to TOD funding and financing posed by current landscape:

- Charging higher RPT rates on higher-value properties might increase RPT revenues. However, there is a limited track record on the effects and implications of such a policy. A progressive structure for RPT is not common in the United States and there are few precedents on the economic effects of implementing such a tax structure. Moreover, the progressive RPT structures on the Neighbor Islands are too new to determine their long-term effects on tax revenue, housing supply, and potential unintended consequences (discussed at the end of this section).
- Existing progressive RPT rate tiers do not necessarily align with market conditions. For example, the median sale price for a single-family home on Oʻahu was over $1 million in May 2023, so the higher RPT rate technically applies to more than half of residential properties.

[51] County of Kauaʻi Ordinance 1150, a copy of which is available here: https://ecode360.com/KA4947/laws/LF1890461.pdf

[52] Progressive RPT was implemented in the County of Hawaiʻi in 2020 with County Council Resolution 658-20 (Draft 2). A copy of that document is available here: https://records.hawaiicounty.gov/Weblink/0/doc/997881/Page1.aspx. For current RPT rates, refer to County of Hawaiʻi Real Property Tax Office, 2023, "Hawai'i County Tax Rates Fiscal year Beginning July 1, 2023 to June 30, 2024."

Figure 20 | County Recommended Actions regarding Property Tax Structure

Recommended Action	Benefits and Implications
Study the feasibility, as well as fiscal and housing market impacts, of more progressive RPT rates, with a focus on targeting high-value, secondary residences, or investment properties in the City and County of Honolulu.	Obtain an understanding of the fiscal and market impacts of implementing a progressive RPT scheme, and potentially increasing effective RPT rates without affecting local residents and increasing County revenues – as well as TIF revenues if implemented in areas with a large share of non-owner-occupied properties.
Continue monitoring the effectiveness of progressive RPT schemes at generating expected revenue and any impacts to the housing market in the Counties of Maui, Kauaʻi, and Hawaiʻi.	Given the rarity of progressive RPT schemes in the United States, the Neighbor Islands should continue to monitor the fiscal and housing market impacts of their recently implemented progressive RPT schemes.

Potential Consequences to Consider with Regards to Progressive RPT Rates

When considering progressive property taxation, Counties should consider policies to avoid unintended consequences, such as:

- **Consider new exemptions in conjunction with a new progressive RPT scheme**. High-assessed value properties may be owned by groups or individuals without high incomes (e.g., multi-generational properties with various structures, middle-income residents for whom real estate is a significant share of their retirement portfolio). To avoid placing an undue burden on groups unable to pay higher property taxes under a potential progressive RPT scheme, Counties could study the effectiveness of charging RPT according to assessed value per square foot (if Counties have or could acquire reliable data on the square footage of property improvements countywide) or impose higher rates only after major capital improvements.
- **Consider deferrals as part of a progressive RPT scheme** for certain groups, such as those with low incomes, for primary residence property. Some or all deferred taxes would be due when or if the property is conveyed.
- **Evidence on the potential impacts on County revenues from progressive RPT rates is limited and should be further analyzed**.

4. Implementation Strategy and Flowcharts for TOD Pilot Areas

This section illustrates how the recommendations for State and County actions work together to deliver the infrastructure needed to promote affordable housing and sustainable development in each TOD Pilot Area. Several of these actions are State-level recommendations, but are included in the County sections where relevant.

While the key TOD financing recommendations focus on increasing the amount and reliability of funding available for infrastructure and housing development, this strategy also recognizes that implementing infrastructure financing and delivery programs requires understanding an area's development potential, the costs and timing of infrastructure improvements needed to support that development, and the entities best positioned to deliver the infrastructure when needed.

This typically requires preparing an infrastructure master plan to guide decision-making about the funding, financing, schedule, and delivery methods for planned infrastructure. On O'ahu, the Iwilei Infrastructure Implementation Master Plan is completed, but implementation will require continuing collaboration and shared, targeted near-term capital investment between multiple State agencies, the City, and private developers. For the other Counties, similar infrastructure plans and agency collaboration on targeted investments are also critical implementation actions.

The summary recommendations for each County include some actions specific to the TOD Pilot Areas, and some that are countywide or statewide. The recommendations are organized in terms of actions that State and County agencies could take in the short-, medium-, and long-term.[53] The accompanying flowcharts illustrate how the policy recommendations and investments interact with each other, and how they would lead to increased infrastructure and housing development. As a baseline action, the State and Counties need to continue collaboration via CIP investments and annual appropriations to advance infrastructure projects.

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[53] While long-term actions will occur after medium-term actions, and medium-term actions will occur after short-term actions, the order in which actions are listed within the short-, medium-, and long-term are not meant to imply a sequencing of actions within the short-, medium-, and long-term.

Iwilei-Kapālama (City and County of Honolulu) Implementation Strategy

Short term:

- Continue City-State collaboration on near-term CIP infrastructure investments in Iwilei, building on the Iwilei Infrastructure Implementation Master Plan. Establish a schedule and funding/financing plan for near-term infrastructure projects, and develop institutional agreements related to financing and delivery of infrastructure in the area, including recommendations for Fiscal Year Budget Requests for the next 2-4 years.
- Support efforts to pass State bills containing recommended provisions with regards to the creation of a State TOD Fund, increases in conveyance tax rates, authorization for Counties to create additional surcharges over GET and TAT and creation a surcharge over the rental car tax, and a constitutional amendment and enabling legislation related to TIF.
- Study the potential implications of a countywide impact fee program, as well as the recalibration of the existing RPT abatements over market-rate units within mixed-income developments.
- In Iwilei-Kapālama specifically, refine the State Iwilei Infrastructure Master Plan to identify the recommended phasing of infrastructure projects and take steps to encourage the formation of a CFD or SID over large landholdings in the area.

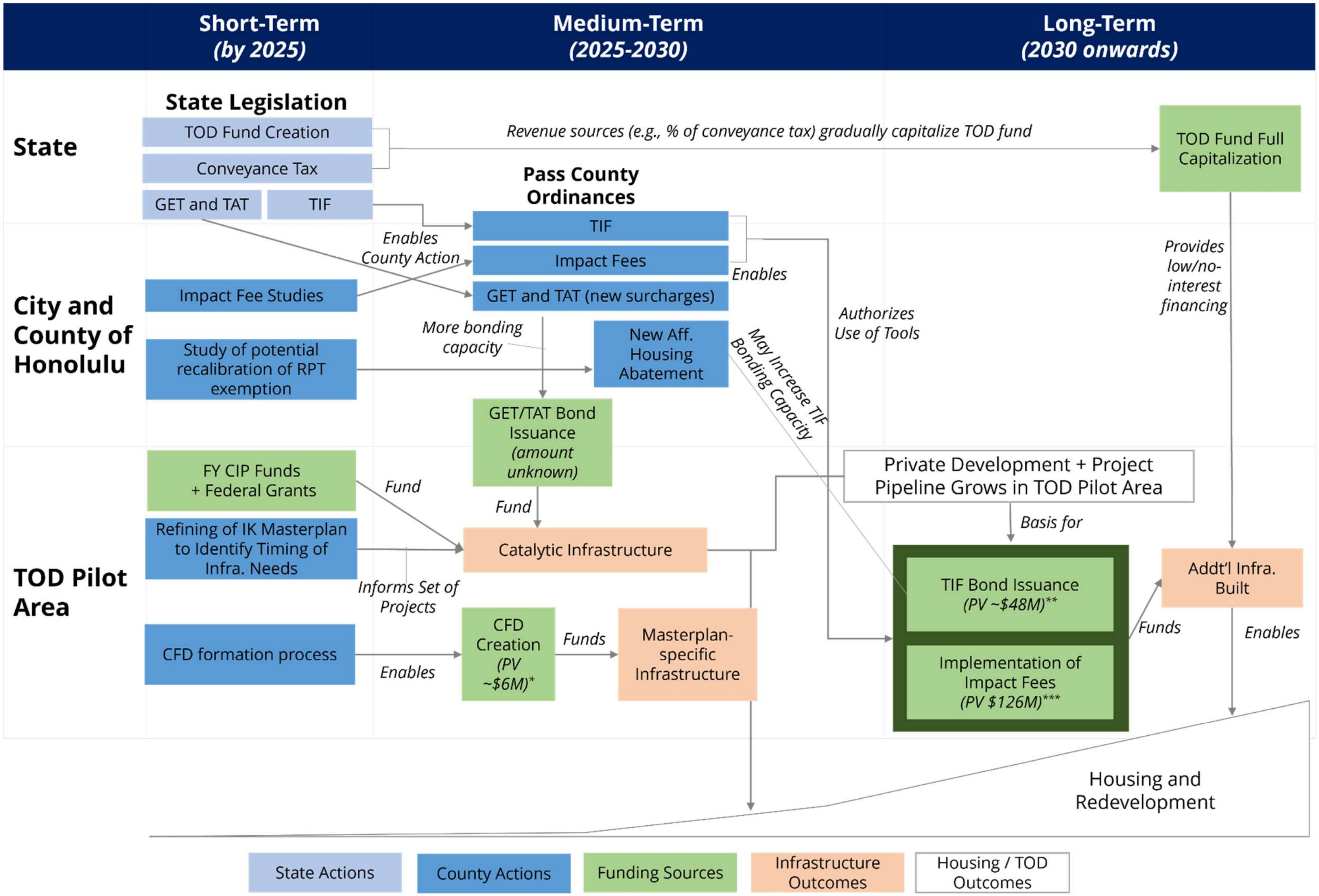
Medium term:

- Pass City ordinances regulating TIF and additional surcharges over GET, TAT, and rental car tax (enabled by changes in State law made in the short-term). Depending on the results of studies concerning RPT exemptions, determine whether to adopt an abatement level for mixed-income buildings that increases RPT and potential TIF revenues. Contingent on the results of the impact fee study, choose whether to pass an ordinance establishing a countywide impact fee program.
- The increase in City revenues from additional surcharges enhances the City's bonding capacity and allows the City to issue a GO Bond that is serviced through surcharge revenues. Proceeds from this bond, in combination with CIP funds and other government grants, allow the funding of certain infrastructure projects – previously identified in the State Iwilei Infrastructure Master Plan – that can enable development in some parts of Iwilei-Kapālama.
- Steps taken in the short-term to encourage the formation of a CFD or SID allow for the creation of a CFD or SID in a large landholding. An initial bond issuance from a CFD can help finance site-specific infrastructure for a masterplan community on this site as well as other districtwide infrastructure projects.

Long term:

- Initial infrastructure investments funded through public funds and CFD funds enable development in the TOD Pilot Area. The uptick in development activity and increase in certainty over future deliveries and tax increment proceeds allow for the issuance of a TIF bond. Moreover, market-rate residential units and commercial space pay impact fees as they are delivered.
- Proceeds from these funding and financing sources allow for continuing infrastructure development, which in turn continues to enable TOD and housing production. The capitalization of a State TOD Revolving Fund, which began with earmarking part of conveyance tax revenues or revenue from other State taxes, reaches a level that is high enough to provide low-interest loans to the City to continue to fund TOD-enabling infrastructure in Iwilei-Kapālama.

Figure 21 I Implementation Flowchart – Iwilei-Kapālama (City and County of Honolulu)



(*) Assumes creation of a CFD on Kamehameha Schools TOD Masterplan for a 45-year period. Present value reflects potential bond issuance in 2030, expressed in $2023 using a 3% discount rate; (**) Assumes creation of a TIF district for a 45-year period. Present value reflects potential bond issuance in 2030, expressed in $2023, using a 3% discount rate; (***) Assumes collection of impact fees for a 45-year period, expressed in $2023, using a 3% discount rate.

Kaʻahumanu Avenue Community Corridor (Maui) Implementation Strategy

Note that, due to the impact of the August 2023 catastrophic wildfires on Maui, the implementation steps and financing mechanisms outlined below for the Kaʻahumanu Avenue Community Corridor Pilot Area may also apply to West Maui. Although the Kaʻahumanu Avenue Pilot Area was not physically impacted by the disaster, Maui's economy needs jumpstarting to ensure residents' livelihoods are protected and to promote sustainable economic growth in both key areas. The concepts identified in the West Maui Community Corridor TOD planning effort may be useful to support recovery efforts. Large-scale infrastructure projects that contribute to Lahaina's rebuilding could also benefit from some of the financing mechanisms discussed in this Strategy.

<u>Short term</u>:

- Prepare joint State-County Development and Infrastructure Needs Assessment and Infrastructure Master Plan for Kaʻahumanu Corridor, based on work done in the Kaʻahumanu Avenue Community Corridor Plan. Prepare similar joint plans for West Maui, building on the West Maui Community Corridor TOD Plan and incorporating ongoing recovery planning,
- Prepare joint CIP Plans for the Pilot Area and for West Maui. Establish a schedule and funding/financing plan for near-term infrastructure projects, and develop institutional agreements related to financing and delivery of infrastructure in the areas, including recommendations for Fiscal Year Budget Requests for the next 2-4 years.
- Support efforts to pass a State bills package containing recommended provisions with regards to the creation of a State TOD Fund, increases in conveyance tax rates, authorization for Counties to create additional surcharges over GET and TAT and creation a surcharge over the rental car tax, and a constitutional amendment and enabling legislation related to TIF.
- Study the potential implications of a countywide impact fee program.
- Pass an ordinance creating a BID in the Kaʻahumanu Avenue Community Corridor.

<u>Medium term</u>:

- Pass ordinances regulating TIF and additional surcharges over GET, TAT, and rental car tax (enabled by changes in State law made in the short-term). Contingent on the results of the impact fee study, determine whether to pass an ordinance streamlining existing impact fee policies to make it applicable to all areas of the County.
- The increase in revenues from additional surcharges enhances the County's bonding capacity and allows the County to issue a GO Bond that is serviced through

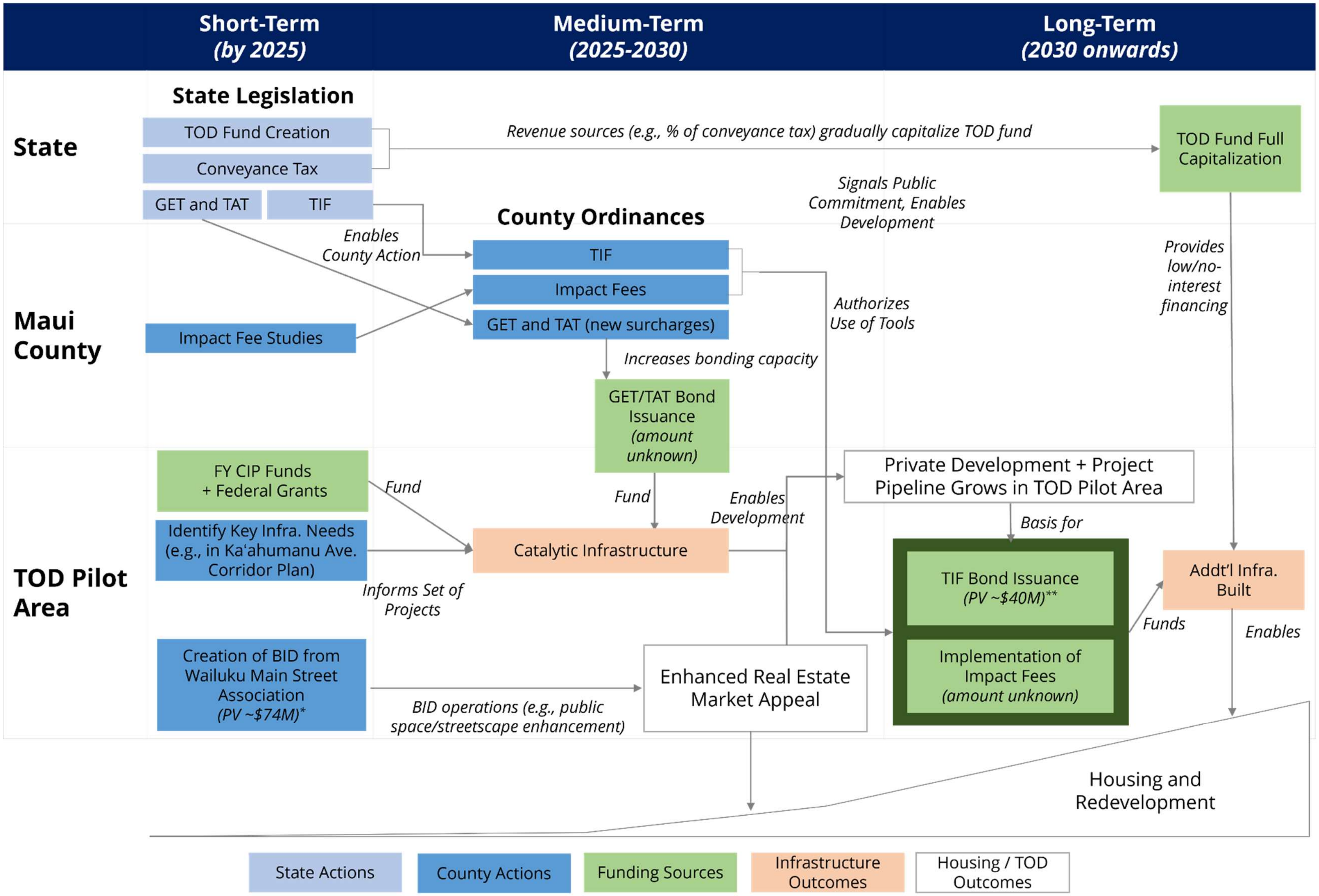
surcharge revenues. Proceeds from this bond in combination with CIP funds and other government grants allow the funding of certain infrastructure projects – previously identified as part of the Kaʻahumanu Avenue Community Corridor Plan – that can enable development in some parts of the corridor.

- The establishment of a BID and its related investments help increase the market appeal of the Corridor and the feasibility of market-rate and commercial development, which in turn increases the base over which districtwide funding tools – such as TIF or impact fees – can be implemented.

Long term:

- BID-led investments and initial infrastructure investments funded through public funds enhance development feasibility and allow for new real estate activity on the Corridor. The uptick in development activity and increase in certainty over future deliveries and tax increment proceeds allows for the issuance of a TIF bond. Moreover, market-rate residential units and commercial space may start paying impact fees as they are delivered.
- Proceeds from these funding and financing sources allow for continuing infrastructure development, which in turn continues to enable TOD and housing production. The capitalization of a State TOD Revolving Fund, which began with earmarking part of conveyance tax revenues or revenue from other State taxes, reaches a level that is high enough to provide low-interest loans to the County to continue to fund TOD-enabling infrastructure.

Figure 22 I Implementation Flowchart – Kaʻahumanu Avenue Community Corridor (County of Maui)



(*) Assumes creation of a BID that collects a special assessment for a 45-year period equivalent to 0.1% of estimated assessed value of commercial space. Present value expressed in \$2023 using a 3% discount rate; (**) Assumes creation of a TIF district for a 45-year period. Present value reflects potential bond issuance in 2030, expressed in \$2023, using a 3% discount rate.

Līhuʻe Town Core (Kauaʻi) Implementation Strategy

Short term:

- Prepare joint State-County Development and Infrastructure Needs Assessment and Infrastructure Master Plan for Līhuʻe Town Core.
- Prepare joint Pilot Area CIP Plan. Establish a schedule and funding/financing plan for near-term infrastructure projects, and develop institutional agreements related to financing and delivery of infrastructure in area, including recommendations for Fiscal Year Budget Requests for the next 2-4 years.
- Support efforts to pass a State bills package containing recommended provisions with regards to the creation of a State TOD Fund, increases in conveyance tax rates, authorization for Counties to create additional surcharges over GET and TAT and creation a surcharge over the rental car tax, and a constitutional amendment and enabling legislation related to TIF.
- Study the potential implications of a countywide impact fee program.
- Pass an ordinance creating a BID in the area, potentially building on the Rice Street Business Association.

Medium term:

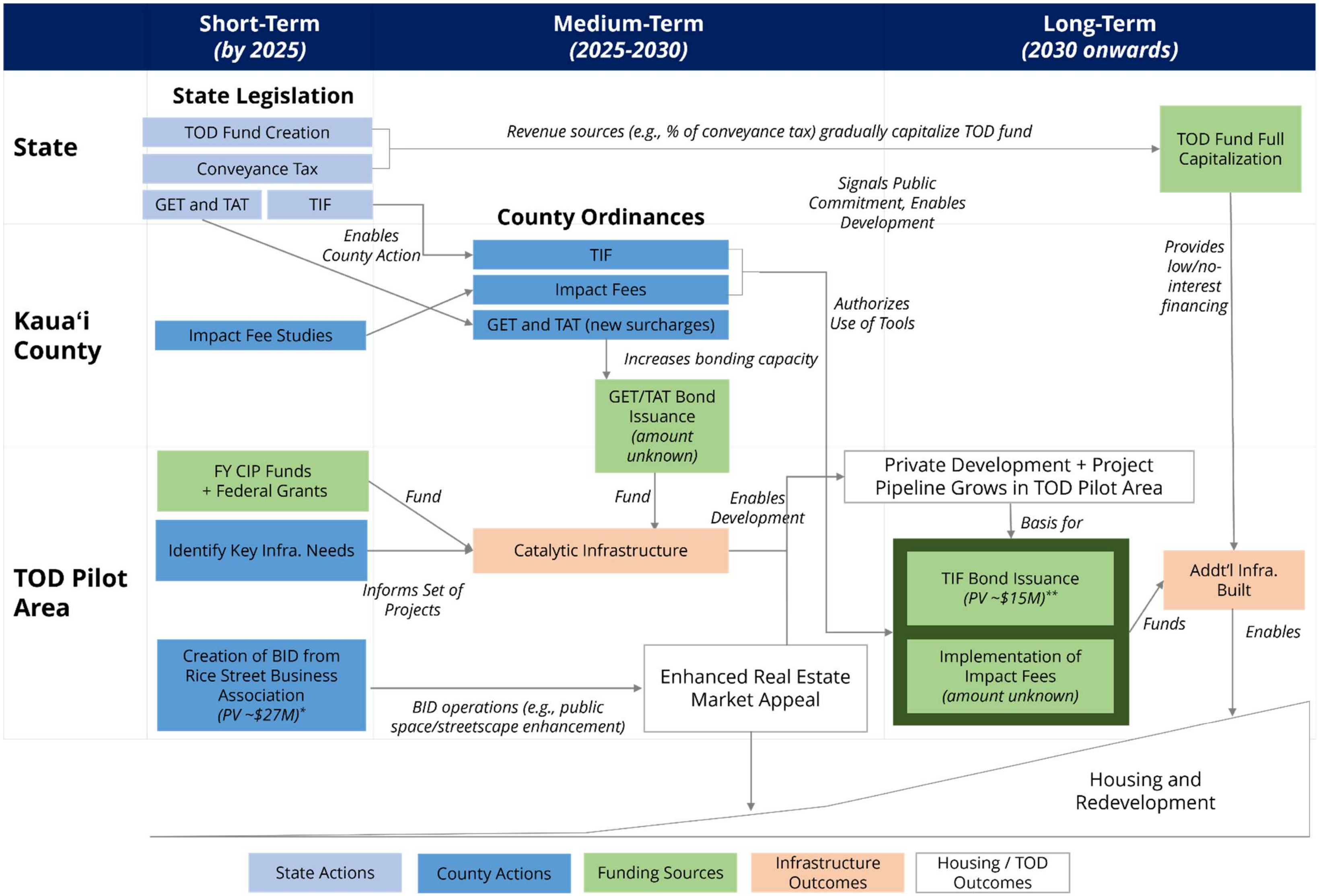
- Pass ordinances regulating TIF and additional surcharges over GET, TAT, and rental car tax (enabled by changes in State law made in the short-term). Contingent on the results of the impact fee study, determine whether to pass an ordinance establishing a countywide impact fee program.
- The increase in County revenues from additional surcharges enhances the County's bonding capacity and allows the County to issue a GO Bond that is serviced through surcharge revenues. Proceeds from this bond in combination with CIP funds and other government grants allow the funding of certain infrastructure projects – previously identified as part of an Infrastructure Master Plan – that can enable development in the Līhuʻe Town Core.
- The establishment of a BID and its related investments help increase the market appeal of the Corridor and the feasibility of market-rate and commercial development, which in turn increases the base over which districtwide funding tools – such as TIF or impact fees – can be implemented.

Long term:

- Initial infrastructure investments funded through public funds and CFD funds enable development in the TOD Pilot Area. The uptick in development activity and increase in certainty over future deliveries and tax increment proceeds allows for the issuance of a TIF bond. Moreover, market-rate residential units and commercial space pay impact fees as they are delivered.

- Proceeds from these funding and financing sources allow for continuing infrastructure development, which in turn continues to enable TOD and housing production. The capitalization of a State TOD Revolving Fund, which began with earmarking part of conveyance tax revenues or revenue from other State taxes, reaches a level that is high enough to provide low-interest loans to the County to continue to fund TOD-enabling infrastructure in the Līhuʻe Town Core.

Figure 23 I Implementation Flowchart – Līhuʻe Town Core (County of Kauaʻi)



(*) Assumes creation of a BID that collects a special assessment for a 45-year period equivalent to 0.1% of estimated assessed value of commercial space. Present value expressed in $2023 using a 3% discount rate; (**) Assumes creation of a TIF district for a 45-year period. Present value reflects potential bond issuance in 2030, expressed in $2023, using a 3% discount rate.

Ane Keohokalole Highway Corridor (Hawaiʻi) Implementation Strategy

Short term:

- Prepare a joint State-County Development and Infrastructure Needs Assessment and Infrastructure Master Plan for the Ane Keohokalole Highway Corridor, based on buildout of the 2010 Kona Community Development Plan to identify critical infrastructure enabling projects, and take steps to encourage the formation of CFDs in master planned communities in the area, such as Kamakana Villages, Pālamanui, and Makalapua District.
- Prepare a joint Pilot Area CIP Plan. Establish a schedule and funding/financing plan for near-term infrastructure projects, and develop institutional agreements related to financing and delivery of infrastructure in area, including recommendations for Fiscal Year Budget Requests for the next 2-4 years.
- Support efforts to pass a State bills package containing recommended provisions with regards to the creation of a State TOD Fund, increases in conveyance tax rates, authorization for Counties to create additional surcharges over GET and TAT and creation of a surcharge over the rental car tax, and a constitutional amendment and enabling legislation related to TIF.
- Study the potential implications of a countywide impact fee program.

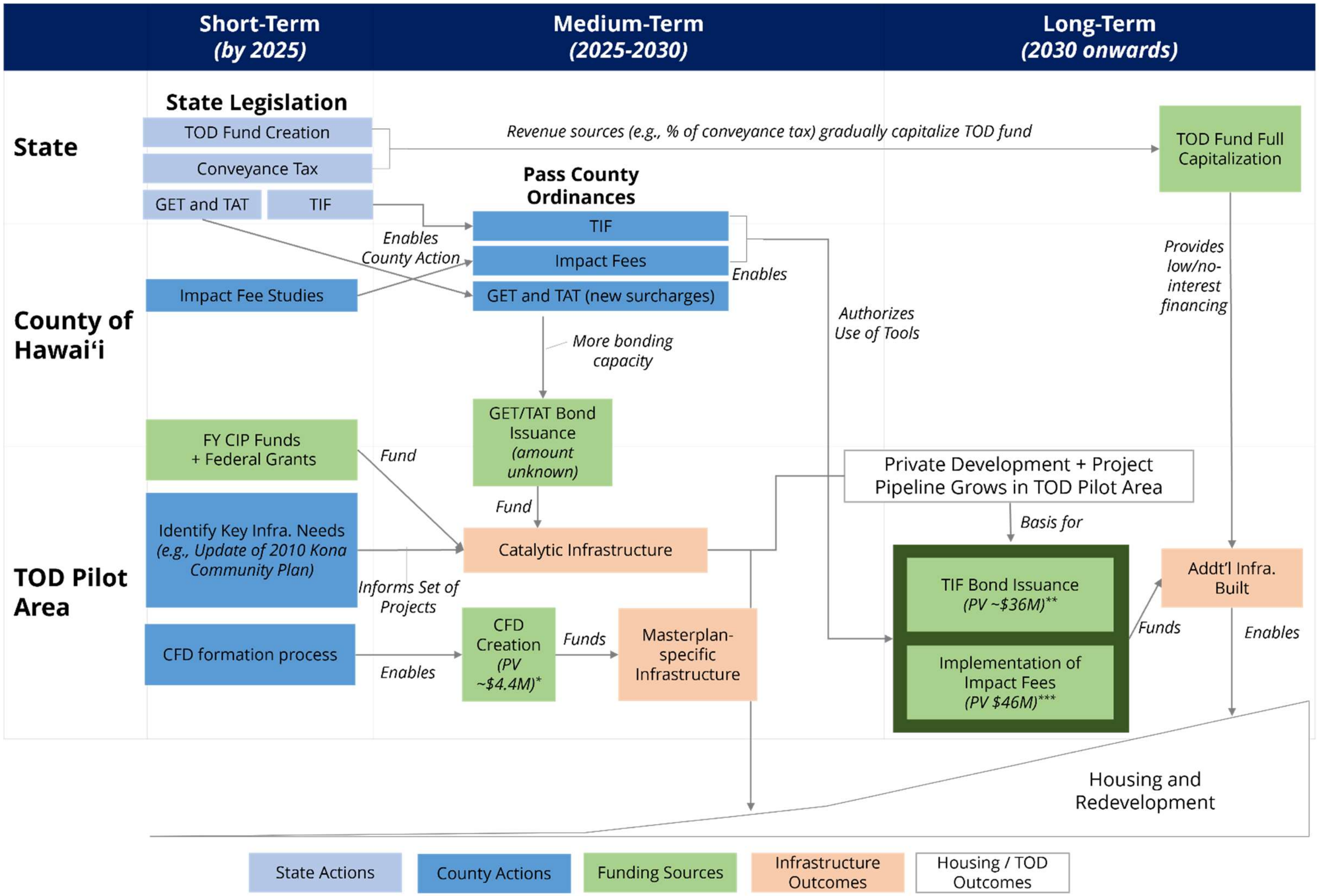
Medium term:

- Pass ordinances regulating TIF and additional surcharges over GET, TAT, and rental car tax (enabled by changes in State law made in the short-term). Contingent on the results of the impact fee study, determine whether to pass an ordinance establishing a countywide impact fee program.
- The increase in County revenues from additional surcharges enhances the City and County's bonding capacity and may allow the County to issue a GO Bond that is serviced through surcharge revenues. Proceeds from this bond in combination with CIP funds and other government grants may allow the funding of certain infrastructure projects – previously identified in the Infrastructure Master Plan – that can enable development of some of the identified redevelopment opportunities.
- Steps taken in the short term to encourage the formation of a CFD or SID may allow for the creation of this type of district in a large landholding. An initial bonds issuance from CFDs can help finance site-specific infrastructure for masterplan communities as well as other districtwide infrastructure projects.

Long term:

- Initial infrastructure investments funded through public funds and CFD funds enable development on the TOD Pilot Area. The uptick in development activity and increase in certainty over future deliveries and tax increment proceeds allows for the issuance of a TIF bond. Market-rate residential units and commercial space pay impact fees as they are delivered.
- Proceeds from these funding and financing sources allow for continuing infrastructure development, which in turn continues to enable TOD and housing production. The capitalization of a State TOD Revolving Fund, which began with earmarking part of conveyance tax revenues or revenue from other State taxes, reaches a level that is high enough to provide low-interest loans to the County to continue to fund TOD-enabling infrastructure.

Figure 24 I Implementation Flowchart – Ane Keohokalole Highway Corridor (County of Hawai'i)



(*) Assumes creation of CFDs Kamakana Villages, Pālamanui, and Makalapua District masterplans for a 45-year period. Present value reflects potential bond issuance in 2030, expressed in $2023 using a 3% discount rate; (**) Assumes creation of a TIF district for a 45-year period. Present value reflects potential bond issuance in 2030, expressed in $2023, using a 3% discount rate; (***) Assumes collection of impact fees for a 45-year period, expressed in $2023, using a 3% discount rate.

Appendix 1: Precedents for Infrastructure Funding & Financing Tools

Selected Hawai'i Funding and Financing Mechanisms

Clean Water State Revolving Fund (CWSRF): Housed within the State Department of Health, the CWSRF provides low-interest loans to County and State agencies for the construction of water pollution control projects.[54]

Drinking Water State Revolving Fund (DWSRF): Housed within the State Department of Health, the DWSRF provides low-interest loans for the construction of drinking water infrastructure projects.[55]

Dwelling Unit Revolving Fund (DURF) Regional State Infrastructure Subaccount (HRS §201H-191.5): Housed within HHFDC, DURF's original mandate was to provide financing for real estate acquisition and development. In 2016 the State legislature created a DURF subaccount to finance infrastructure projects, "that would increase the capacity of… infrastructure facilities, including regional sewer systems, water systems, drainage systems, roads, and telecommunications and broadband." (HRS §201H-191.5(c)).

Hawaiʻi Green Infrastructure Authority (HGIA): HGIA is "Hawaiʻi's Green Bank." Initially capitalized by a $150M bond in 2014, HGIA provides financing for energy efficiency upgrades for residents, businesses, nonprofits, and other State agencies.[56]

HCDA Assessment Districts (HRS §206E-6): When HCDA develops public facilities as part of a district-wide improvement program, "the cost of providing the public facilities shall be assessed against the real property in the community development district specially benefiting from such public facilities."

HCDA Special Fund (HRS §206E-16): All receipts and revenues of the HCDA are deposited into a special fund, to be used for HCDA programs (e.g., community redevelopment, leasing, and management).

HCDA TOD Infrastructure Improvement District Special Fund (Act 184, SLH 2022): Supports development, construction, and improvement of TOD-enabling infrastructure within one-half mile radius of proposed or existing rail stations and levying of assessments on properties within such districts, which revenues would be deposited in the Special Fund.

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[54] Hawaiʻi Department of Health, 2023, Clean Water State Revolving Fund Program.
[55] Hawaiʻi Department of Health, 2023, Drinking Water State Revolving Fund.
[56] Hawaiʻi Green Infrastructure Authority, 2023, About Us.

Rental Housing Revolving Fund (HRS §201H-202): Awards competitive equity-gap low-interest loans to owners and developers to construct affordable housing.

Waikīkī Business Improvement District (BID): Created in 2000, the Waikīkī BID has an Aloha Ambassadors program (providing public information and community policing services) and provides streetscape maintenance within the district.[57] The BID and its activities are funded through an assessment on commercial properties.[58]

Waikīkī Beach Special Improvement District (SID): Created in 2015 by ordinance of the City and County of Honolulu, the Waikīkī Beach SID was formed to restore Waikīkī Beach and sustain beach management efforts. The SID is authorized to raise money from commercial property owners in the form of assessments.[59]

Tax Increment Financing (TIF)

TIF in Non-Contiguous Districts

Maine Housing Authority Affordable Housing Tax Increment Financing (AHTIF): AHTIF is a tool for jurisdictions to finance efforts to support affordable housing and associated infrastructure costs, such as street improvements or school construction, to handle population increases. Under Maine's law, municipalities can designate up to two percent of their land as an AHTIF district. AHTIF district tax increment revenues can fund certain infrastructure costs outside of the district, so long as those costs are directly related to or made necessary by the establishment or operation of the district.[60]

TOD TIF District (Dallas, Texas): In 2008, the City of Dallas created the "TOD TIF District," comprised of 1,600 acres divided into four sub-districts around eight Dallas Area Rapid Transit stations. A percentage of tax increment generated from Cedars West and Mockingbird/Lovers Lane sub-districts is allocated to the Lancaster Corridor sub-district (a priority area), supporting development, infrastructure, and an affordable housing fund. While technically a contiguous district (the subdistricts are drawn over roads and railways), the Dallas TOD TIF District is a successful model of using TIF districts to cross-subsidize from high-income areas to priority areas.[61]

California's Enhanced Infrastructure Financing Districts: The California Government Code allows the formation of non-contiguous TIF districts, and the funding of facilities not

[57] Waikīkī BID, 2023, "Improvement."
[58] Waikīkī BID, 2023, "Precincts and Rate Schedule."
[59] Waikīkī Beach Special Improvement District. 2023. "About Us."
[60] Maine State Housing Authority, "Affordable Housing Tax Increment Financing Program.," accessed November 13, 2023.
[61] City of Dallas Economic Development, "TOD TIF District," accessed November 13, 2023.

"physically located within the boundaries of the district" so long as they "have a tangible connection to the work of the district."[62]

Massachusetts District Improvement Financing (DIF): Authorized under Chapter 40Q of the Massachusetts General Laws, DIF is a tool that allows municipalities to direct tax revenues into targeted redevelopment areas. A DIF District does not need to be contiguous and has two parts – an "Invested Revenue District" where tax increment revenue is raised from, and a "Development District" where those revenues are invested into projects. DIF Districts can be constructed to allow cross-subsidization from high-growth areas to priority areas. The area of all DIF Districts may not exceed 25% of the area of an entire municipality.[63]

Key Takeaway: Multiple jurisdictions have successfully deployed non-contiguous TIF Districts to cross-subsidize between high-growth areas and priority investment areas.

TIF and Capturing of Areawide-Produced Sales Tax Revenue

Kansas Sales Tax and Revenue (STAR) Bonds: Sales Tax and Revenue (STAR) Bonds are a financing tool that allows Kansas municipalities to issue bonds to finance the development of major commercial, entertainment and tourism projects. The bonds are paid off through the sales tax revenue generated by the development. STAR Bonds are used to assist the development of major entertainment or tourism destinations in Kansas. State and local sales tax revenue generated by the attraction and associated retail development are used to pay back the bonds.[64]

New Mexico Tax Increment Development Districts: First, a district, the TIDD, is defined for (re)development. Second, a baseline property and gross receipts tax is established within the district, known as the TIF's base gross receipts tax and base property tax. In a previously developed area, there usually is some preexisting tax base; in greenfields, or previously undeveloped areas, there usually is none. Third, the TIDD district negotiates a deal with the taxing agencies (City Council, County Commission, and/or Board of Finance/New Mexico Legislature) to receive up to 75% of the incremental increase in tax revenue resulting from the improvement within the district for up to 25 years.[65]

Key Takeaway: Multiple jurisdictions have used incremental non-property-tax revenues in addition to property tax increment to back TIF bonds and raise financing for infrastructure.

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[62] California Government Code §§53398.50-53398.88.
[63] Massachusetts Development Finance Agency, 2019, "District Improvement Financing (DIF) Guide: A Guide to Using DIF in Massachusetts Towns and Cities."
[64] Kansas Department of Commerce, "Sales Tax and Revenue Bonds," accessed November 13, 2023.
[65] Environment New Mexico Research & Policy Center, 2008, "Tax Increment Financing (TIF) in New Mexico."

TIF and “but for” requirement

Minnesota Statutes: 2022 Minnesota Statutes §469.175 establishes that before or at the time of approval of the tax increment financing plan, the municipality shall find that: “(i) the proposed development or redevelopment would not reasonably be expected to occur solely through private investment within the reasonably foreseeable future; and (ii) the increased market value of the site that could reasonably be expected to occur without the use of tax increment financing would be less than the increase in the market value estimated to result from the proposed development after subtracting the present value of the projected tax increments for the maximum duration of the district permitted by the plan. The requirements of this item do not apply if the district is a housing district.”

Key Takeaway: Many jurisdictions that employ TIF, including Minnesota, use a “but-for” requirement to prevent the use of TIF in areas where it is not needed, mitigating the risk that TIF proliferates and deprives general funds of revenue.

TIF and Net Fiscal Impact Finding

Los Angeles County EIFD Policy: In 2014, California Senate Bill 628, which authorized the formation of Enhanced Infrastructure Financing Districts, a type of TIF district. Multiple entities (for instance, Cities, Counties, Redevelopment Districts) can participate in the TIF, and their participation is completely voluntary. After the passing of the bill, the County of Los Angeles passed an EIFD policy to evaluate the proposals the County receives to participate in EIFDs. The purpose of the policy is to protect the County’s interests and provide policy guidance to the CEO when evaluating EIFD proposals from cities. One of the requirements in the policy is a fiscal analysis, including:

1. Each EIFD proposal shall be subject to a fiscal analysis that will determine the expected financial impact to the County General Fund and any special districts that may contribute a portion of their tax increment share. Where appropriate, the County may require reimbursement from the proposing entity for the cost of conducting the fiscal analysis.
2. The fiscal analysis shall review the following:
    a. Anticipated growth in assessed value absent any new development;
    b. Expected new development in terms of retail square footage, business park, square footage, office space, apartment units, condominium units, housing, units, hotel units, and parking spaces;
    c. Tax increment generated as a result of each new development opportunity associated with the EIFD;
    d. Tax increment contributions from each participating agency;
    e. Scenario analysis based on differing contributions from each County taxing entity;

    f. Property tax revenue resulting to each taxing entity based on new development and growth in assessed value; and
    g. Sales and transient occupancy tax revenues resulting to the City and County
3. The resulting fiscal analysis must demonstrate a positive net Impact to the County General Fund based on the anticipated tax revenue. This analysis shall Include a comparison of the Increased amount of property and sales taxes to the County generated by the project with the amount of property taxes contributed to the EIFD.
4. A sensitivity analysis shall be conducted to evaluate the risk associated with tax forecasts based on various economic scenarios that might Impact the amount of actual development realized in the EIFD.

Key Takeaway: Many jurisdictions that employ TIF, including Los Angeles, have a "net fiscal impact finding" requirement that requires the cost of public service provision for development stimulated by TIF-funded improvements does not exceed the revenues generated by that development for the general fund. In practice, this often means that less than 100% of the tax increment is earmarked for repaying the TIF bond.

TIF and Set Aside of Revenue or Units for Affordable Housing

West Carson Enhanced Infrastructure Financing District (Los Angeles County): In 2020, Los Angeles County established an Enhanced Infrastructure Financing District (EIFD) – a type of TIF district – in unincorporated West Carson. The County will deposit 20% of tax increment funds generated into its Affordable Housing Trust Fund, which supports affordable housing development. The West Carson EIFD is projected to contribute a total of $120 million to the Affordable Housing Trust Fund over its 45-year term.[66]

Massachusetts Department of Community Development and Housing Urban Center Housing Tax Increment Financing (UCH-TIF) Program: UCH-TIF authorizes local governments to use TIF financing for affordable housing in commercial centers that have a low population during non-business hours. Municipalities must demonstrate the need for multifamily housing within the area they target under this program and designate at least 25% of new housing units to be affordable.[67]

Key Takeaway: Many jurisdictions that employ TIF have used it to also advance affordable housing goals, by requiring a certain percentage of units be set aside as affordable, or by requiring that a certain percentage of revenues be deposited into an affordable housing fund.

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[66] Southern California Association of Governments, "County of Los Angeles West Carson Enhanced Infrastructure Financing District (EIFD)", accessed November 13, 2023.
[67] Massachusetts Executive Office of Housing and Livable Communities, "Urban Center Housing Tax Increment Financing (UCH-TIF)," accessed November 13, 2023.

TIF and Limits to Administrative Costs

Minnesota Statutes: Minnesota's tax increment financing law limits administrative costs associated with TIF Districts. This limit is usually 10 percent of the lesser of either (a) expenditures authorized in the TIF plan or (b) the district's tax increment.[68]

Key Takeaway: Administrative costs associated with TIF can be legislatively capped.

Layering a TIF and CFD Together

Salesforce Transit Center: Among other tools, the authority responsible for the construction of San Francisco's Salesforce Transit Center deployed a TIF and a CFD together.

- CFD special taxes will repay $260 million in interim financing provided by the City and County of San Francisco.[69]
- Incremental tax revenues will repay a $171 million Transportation Infrastructure Finance and Innovation Act (TIFIA) loan.[70]

Key Takeaway: TIF can take a long time to generate revenues as real estate development (and TIF revenues) ramp up. CFDs can be deployed to raise short-term financing while TIF revenues ramp up.

TOD Infrastructure Revolving Fund

Bay Area Housing Finance Authority (BAHFA)

Founded in 2019, BAHFA supports affordable housing production and preservation and tenant protection initiatives across the nine San Francisco Bay Area Counties. It is governed by the Metropolitan Transportation Commission (MTC – the region's Metropolitan Planning Organization), as well as the Association of Bay Area Governments, an inter-County advisory group.

Originally funded by one-time State grants, BAHFA is authorized to raise revenues, subject to voter approval, via general obligation bonds, parcel taxes, per employee "head taxes," gross receipt taxes, and impact fees linked to commercial development. These revenue-raising measures can be imposed on a minimum of four counties, or a maximum of all nine. Revenues raised are shared between BAHFA and the counties (apportionment based on assessed value; counties decide which entity distributes funds; some large cities receive direct allocations). The revenue sharing breakdown between BAHFA and the counties depends on the revenue tool in question. For example, BAHFA is submitting a $10B-$20B

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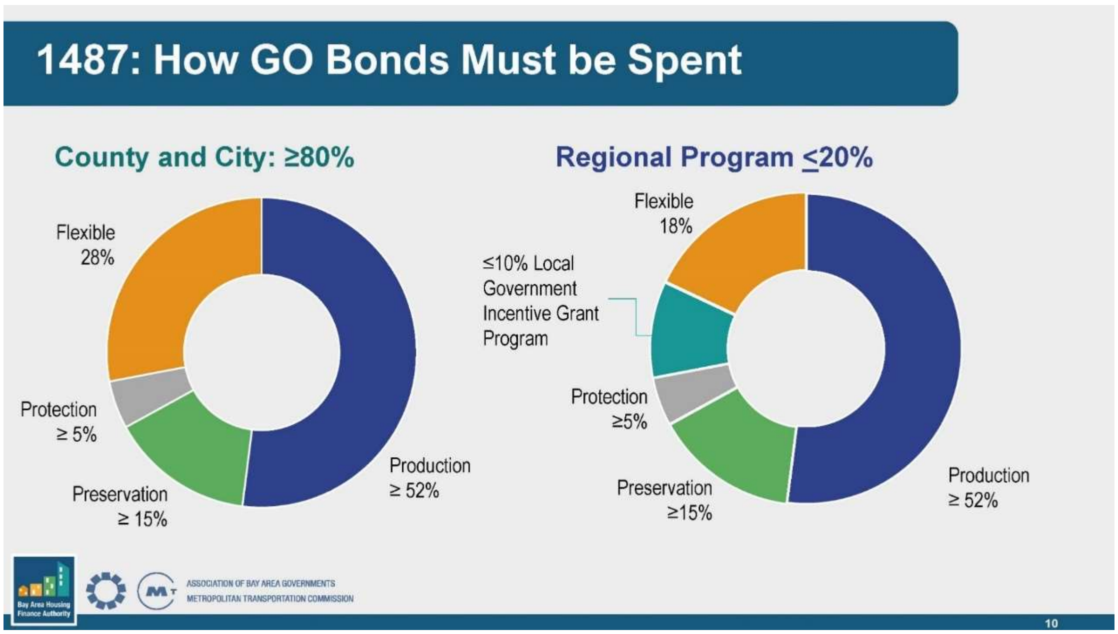
[68] Minnesota House Research Department, October 2010, "Minnesota Tax Increment Financing Glossary."
[69] Bloomberg, April 11, 2016, "San Francisco to Provide $260 million to Finish Transit Hub."
[70] Federal Highway Administration, "Project Profile: Transbay Transit Center."

affordable housing general obligation bond to voters in November 2024. 80% of proceeds will be returned to counties and cities, but 20% will be retained by BAHFA to support projects across the region, allowing cross-subsidization from higher-income areas to areas of need. A breakdown of how counties and cities, as well as BAHFA (see donut chart labeled "Regional Program"), will be required to spend bond proceeds is shown below.[71]

Figure 25 | Allocation of BAHFA General Obligation Bond Proceeds



In addition to the GO bond mentioned above, BAHFA (in partnership with MTC, and two area transit agencies) are applying for a Federal Pathways to Removing Obstacles to Housing (PRO Housing) grant.[72]

BAHFA has several existing programs and programs under development:

- Doorway Pilot: A program to digitize and streamline the search, application, and placement process for affordable housing for residents, and to simplify the lease-up process for housing developers and property managers.
- Regional Affordable Housing Pipeline Pilot: In partnership with Enterprise Community Partners, an inventory of all Bay Area affordable housing projects currently in progress, but for which not all funding is secured. Data for the pilot was

[71] Association of Bay Area Governments, May 2023, "Bay Area Housing Finance Authority Assembly Bill 1487: How It Works."
[72] The Bay Link, October 9, 2023, "MTC, BAHFA seek federal funding for affordable housing."

collected in 2020 and updated in 2022. The most recent study indicated there are 32,944 affordable homes in the pipeline with $7.6B in public financing needs.[73]

- Welfare Tax Exemption Preservation Program: A program that provides public sector technical support to help mission-driven housing developers secure property tax relief for deed-restricted affordable housing.
- Housing Preservation Pilot: A program that will offer over-the-counter financing to non-profit developers and community land trusts to acquire and rehabilitate residential properties occupied by low- and moderate-income residents, prioritizing projects in underserved communities and proximate to planned or existing public transit.
- Bay Area Preservation Pilot: A revolving loan fund managed by the Low Income Investment Fund and Enterprise Community Loan Fund, which assists mission-driven developers and community-based organizations acquire and preserve unsubsidized affordable housing in areas of high-frequency transit service.
- Anti-Displacement and Homelessness Prevention Pilot: Research and planning on programs and policies to improve tenant protection and homelessness prevention currently under development by BAHFA.

Key Takeaway: BAHFA provides a potential revenue sharing and governance model for a statewide infrastructure fund in Hawaiʻi.

Rhode Island Infrastructure Bank (RIIB)

The Rhode Island Infrastructure Bank (RIIB) was established by Rhode Island's State legislature in 2015, building off its predecessor entity, the Clean Water Finance Agency. RIIB serves as a central hub for infrastructure project financing. Prior to the RIIB's establishment, infrastructure investment was not well coordinated (leaving millions of Federal dollars on the table), and the State's energy programs were limited in scale and did not address energy efficiency needs.[74] To facilitate the transition into a new structure, the organization installed new staff and board leadership.

Today, the RIIB oversees a diverse range of funds and programs addressing the following infrastructure areas:[75]

- **Drinking Water:** Drinking Water State Revolving Fund
- **Wastewater Management:** Community Septic System Loan Program, Sewer Tie-In Loan Fund

[73] Enterprise Community Partners, February 9, 2023, "Bay Area Needs $7.6 Billion to Unlock 33,000 Affordable Homes."
[74] State of Rhode Island, 2021, "Rhode Island Infrastructure Bank Impact Overview 2016-2021."
[75] Rhode Island Infrastructure Bank, 2022, "2022 Annual Report."

- **Water Pollution Abatement:** Clean Water State Revolving Fund, Facility Plan Loan Program, Water Pollution Control Revolving Fund
- **Resilience:** Stormwater Project Accelerator, Municipal Resilience Program
- **Transportation:** Municipal Road and Bridge Revolving Fund
- **Building Energy Efficiency:** Commercial Property Assessed Clean Energy, Efficient Buildings Fund
- **Brownfield Remediation:** Brownfield Revolving Loan Fund
- **General Infrastructure Needs:** Municipal Infrastructure Grant Program

RIIB Business Model

While receiving annual appropriations from Federal and State sources, RIIB is primarily capitalized by private sources (in 2018, RIIB was lent $4 in private funds for every $1 it received from Federal and State sources). RIIB uses those public and private funds to finance municipalities' infrastructure projects, and those loans are repaid (typically over 30 years), replenishing RIIB's various revolving funds and making capital available to support new projects. Because of the size of RIIB's funds and its ability to package many small loans together, it can reduce transaction costs and borrow at rates lower than individual municipalities, allowing it to pass those benefits on to municipal infrastructure projects.[76]

RIIB Impact

From 2016 to 2021, RIIB financed over $734M in infrastructure loans and grants in 30 of the State's 39 municipalities and supported the creation of 17,250 jobs.[77] In FY2022, RIIB invested a total of $122M in infrastructure projects ($114M in loans and $8M in grants).[78]

Key Takeaway: The Rhode Island Infrastructure Bank was effective at consolidating the State's varying infrastructure financing mechanisms under one roof, coordinating statewide investments. The State of Hawaiʻi can potentially explore the benefits of forming an infrastructure bank, potentially consolidating the State's varying funds under one institution.

County of Kauaʻi Housing Revolving Funds

In the wake of Hurricane Iniki in 1992, Kauaʻi received disaster relief HUD Home Investment Partnerships Program (HOME) and Community Development Block Grant (CDBG) funds that were deployed as low/no-interest loans to residents for construction or rehabilitation. As the loans were repaid, they were deposited into revolving funds that Kauaʻi County

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[76] Rhode Island Infrastructure Bank, May 10, 2018, "Jeff Diehl Rhode Island Infrastructure Bank WPRI Newsmakers May 6, 2018."
[77] State of Rhode Island, 2021, "Rhode Island Infrastructure Bank Impact Overview 2016-2021."
[78] Rhode Island Infrastructure Bank, 2022, "2022 Annual Report."

maintains today to fund new multifamily residential construction and affordable homeownership opportunities, such as the following examples:[79]

- HOME: Supports Kalepa Village and Waimea Huakai Apartments (new construction multi-family rental projects); Kauaʻi Habitat for Humanity's Eleele Iluna Self-Help Subdivision (homeownership project)
- CDBG: Supports Home Purchase Program (County purchases homes fee simple and sells them to low-income households as leaseholds under the County Homebuyer Program), first mortgage and down payment assistance to low-income first-time homebuyers.

Key Takeaway: Revolving loan funds have been effectively deployed by Counties in the State of Hawaiʻi for project financing.

Adjusting RPT Exemptions for Mixed-Income Residential Projects

Expiration of the "421a" RPT Exemption in New York City

New York City's "421a" RPT exemption, established by State law, previously froze property taxes at pre-development levels for 30 years for rental residential projects that set aside 25%-30% of units for affordable housing. Among other important effects, 421a made the production of affordable housing required by New York City's "Mandatory Inclusionary Housing" policy for upzoned areas far more financially feasible.[80]

421a expired in January 2023, and despite efforts by New York's governor, the State legislature has not replaced it. Production of rental housing, especially affordable rental housing, has plummeted thereafter.[81] In addition to general macroeconomic conditions, there are two other causes for the production slowdown worth highlighting:

1. The development process takes years between planning, financing, and construction. Developers were expecting 421a to be renewed and were not planning on its expiry, pausing pipeline projects. Without the RPT exemption, developers may need to adjust their development programs, gather new financing, or take other adaptive measures – all of which take time.
2. Developers may also be waiting for a replacement for 421a before committing to new rental housing projects, given that the tax break has existed in some form in

[79] Information provided by Kauaʻi County Department of Finance.
[80] Gotham Gazette, June 1, 2023, "Housing Development in New York City Slows to a Crawl as Officials Debate Tax Incentives."
[81] Idem.

New York City since the 1970s, and there is no clear message coming from New York's governor or State legislature regarding its eventual fate.

Key Takeaway: Regardless of what the City and County of Honolulu decides regarding the eventual fate of its mixed-income residential RPT exemption, it should send a definitive message well before its current 2030 expiration. Letting developers know what will happen will allow them to plan, gather financing, and propose development programs with greater certainty about market conditions, thereby facilitating greater housing production in the medium- to long-term.

Community Facilities Districts (CFDs)

Identifying priority infrastructure in the Iwilei Infrastructure Implementation Master Plan

While the TOD finance strategy focuses on increasing the amount and reliability of funding available for infrastructure and housing development, it also recognizes the need for infrastructure master plans to guide decision-making about the funding, financing, schedule, and delivery methods for planned infrastructure. This requires understanding an area's development potential, the costs and timing of infrastructure improvements needed to support that development, and the entities best positioned to deliver the infrastructure.

In 2018, the Office of Planning (now OPSD) developed a master plan and infrastructure plan, for three TOD districts along Honolulu's rail corridor: East Kapolei, Halawa Stadium, and Iwilei-Kapālama. This built on the City's Neighborhood TOD Plans and 2017 Iwilei Infrastructure Needs Assessment.

Due to significant State lands in the Iwilei-Kapalama area, HHFDC and DAGS commissioned a more detailed "Infrastructure Improvement Master Plan for the Iwilei Area" in 2022, to identify infrastructure improvements needed to support TOD and housing development. HHFDC executed an intergovernmental agreement with the City to collaborate on the plan, and their consultants interviewed State, City, and private landowners and developers to understand the location, amount, and phasing of likely development over several decades. They worked with State and City agencies to identify specific infrastructure needed to serve the expected 27,400 new housing units totals, with phased costs of nearly $700M over the next three decades. That infrastructure plan was used to develop the finance strategy for Iwilei.

Key Takeaway: On O'ahu, the Iwilei Infrastructure Implementation Master Plan is completed, but implementation will require continuing collaboration and shared, targeted capital investment between multiple State agencies, the City, and private developers. This may require executing institutional agreements related to financing and delivery of infrastructure in the area. OPSD and HCDA are preparing to develop a similar infrastructure master plan for East Kapolei, in collaboration with the City and other State agencies. For the other Counties, similar infrastructure implementation master plans and agency collaboration on targeted investments are also critical implementation actions.

Requiring developers to participate in CFD in exchange for density bonuses in the Salesforce District (San Francisco, CA)

To redevelop the former San Francisco Transbay Terminal into the new Salesforce Transit Center, the City and County of San Francisco, along with multiple public transit agencies, formed the Transbay Joint Powers Authority (TJPA). Among other funding and financing mechanisms, the TJPA employed a CFD.

The Transbay Transit Center CFD was approved by the City of San Francisco in 2014 following the City's adoption of the Transit Center District Plan in 2012, which set the stage for the development of the area around the Transit Center. The CFD allows the levy of special taxes, up to $1.4 billion, on properties within the District, approximately 15 acres in Downtown San Francisco around the Transit Center. There is also a provision for properties to be annexed into the CFD if they use density bonuses and are located within the "Future Annexation Area." The benefit of the Future Annexation Area is the expansion of the special tax base with fewer procedural requirements.[82]

The special tax was low enough that it did not deter development in the District or the Future Annexation Area. For example, in 2018, 250 Howard (Park Tower) was annexed due to its use of zoning bonuses.

The proceeds of the CFD are split between the City and the TJPA, pursuant to a Joint Community Facilities Agreement. The Agreement dictates that 82.6% of proceeds from the special tax to TJPA to finance the project, while the remaining 17% go to general streetscape and transportation enhancements in the District, including a portion allocable to the San Francisco Bay Area Rapid Transit ("BART").

As of December 2022, proceeds from the Transbay CFD have been pledged as securities for five bond issuances with an aggregate par amount of $593 million.

Key Takeaway: CFD formation can be used as a requirement or incentive for zoning and entitlement for developers.

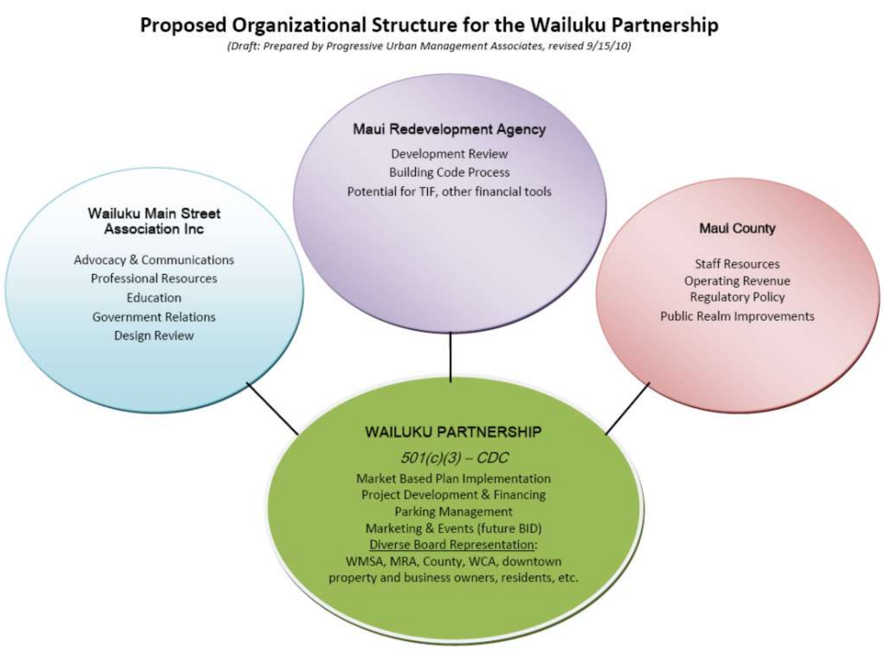
[82] San Francisco Controller, September 17, 2020, "City and County of San Francisco Community Facilities District No. 2014-1 (Transbay Transit Center) CFD Tax Administration Report."

Business Improvement Districts (BIDs)

Wailuku Partnership Community Development Corporation

In 2010, Progressive Urban Management Associates prepared a market-based plan for the County of Maui and the Maui Redevelopment Agency regarding the Wailuku Redevelopment Area. Among other items, the report recommended the formation of a non-profit Wailuku Partnership Community Development Corporation (WPCDC). The WPCDC would serve to unify well-intentioned but uncoordinated economic development initiatives, as well as implement programming like a year-round public market and parking management. The WPCDC would draw on resources provided by the Wailuku Main Street Association, the County of Maui, and the Maui Redevelopment Agency (see chart below).[83] WPCDC's board would be made up of representatives from those organizations, as well as area property owners, businesses, and residents with expertise suitable to advance the organization's mission.

Figure 26 | Proposed Organizational Structure for Wailuku Partnership



Key Takeaway: While the WPCDC was never formed, the concept of employing resources from existing business associations and levels of local government is a useful framework for BID formation in Hawaii.

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83 The County of Maui, October 1, 2010, "Wailuku Redevelopment Area Market-Based Plan." Also, note that this study was developed before the Wailuku Main Street Association was dissolved.

Appendix 2: County Permitted Interaction Groups and Project Advisory Group

County Permitted Interaction Groups (PIGS)

*Change in Employment Status - Joined or left during the study

State Agencies
Office of Planning and Sustainable Development
Mary Alice Evans, Neighbor Island PIGs Co-Chair*
Katia Balassiano*
Harrison Rue*
Rodney Funakoshi*
Ruby Edwards
Lauren Primiano

Hawaiʻi Housing Finance and Development Corporation
Dean Minakami, Oahu PIG Co-Chair
Randy Chu*
Denise Iseri-Matsubara*
Norman Jimeno

Hawaiʻi Public Housing Authority
Hakim Ouansafi
Andrew Tang
Kevin Auger*

Hawaiʻi Community Development Authority
Craig Nakamoto
Ryan Tam
Mark Hakoda
Carson Schultz*

Department of Education
Randy Tanaka
Roy Ikeda
Chad Farias (School Facilities Authority)

Department of Accounting and General Services
Keith Regan
Chris Kinimaka
David DePonte
Curt Otaguro*

Department of Land and Natural Resources
Ian Hirokawa
Lauren Yasaka
Blue Kaanehe

Alison Neustein
Katie Roth
Derek Wong

Department of Health
Heidi Hansen Smith

Department of Hawaiian Home Lands
Darrell Ing
Sara Okuda

Department of Transportation
Ed Sniffen*
Dre Kalili*
Harry Takiue
David Rodriguez*
Annette Matsuda
Melissa Miranda-Johnson*

University of Hawaiʻi
Michael Shibata
Carleton Ching*

Housing Advocate
Kevin Carney

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Mary Alice Evans (OPSD), Hawaiʻi PIG Co-Chair*
Lee Lord (Mayor's Office)
Bobby Command (Mayor's Office)
April Surprenant (Planning)
Natasha Soriano (Planning)
Paka Davis (Planning)
Janice Hata (Planning)
Deanna Sako (Finance)
Diane Nakagawa (Finance)
Kay Oshiro (Finance)
Peter Sur (Environmental Management)
Keith Okamoto (Water Supply)
Kurt Inaba (Water Supply)
Susan Kunz (Housing and Community Development)
Harry Yada (Housing and Community Development)
Steve Pause (Public Works)
Malia Kekai (Public Works)
Melanie DeMello (Public Works)
Ramzi Mansour (Environmental Management)
Eric Takamura (Environmental Management)
Brenda Iokepa-Moses (Environmental Management)
Chris Laude (Environmental Management)
Maurice Messina (Parks and Recreations)
Victor Kandle (Mass Transit Agency)*

Zac Bergum (Mass Transit Agency)
John Andoh (Mass Transit Agency)*

City and County of Honolulu
Representative Nadine Nakamura (House of Representatives), Oʻahu PIG Co-Chair
Dean Minakami (HHFDC), Oʻahu PIG Co-Chair
Krishna Jayaram (Mayor's Office)
Tim Streitz (Planning and Permitting)*
Craig Hirai (Planning and Permitting)
Harrison Rue (Planning and Permitting)*
Dean Uchida (Planning and Permitting)*
Andy Kawano (Budget and Fiscal Services)
Carrie Castle (Budget and Fiscal Services)
Steven Takara (Budget and Fiscal Services)
Denise Iseri-Matsubara (Office of Housing)*
Kevin Auger (Office of Housing)*
Jaylen Murakami (Office of Housing)
Randy Chu (Land Management)*
Warren Mamizuka (Facilities Maintenance)
Tyler Sugihara (Facilities Maintenance)
Dawn Szewczyk (Facilities Maintenance)*
Haku Miles (Design and Construction)
Walter Billingsley (Design and Construction)
Roger Babcock (Environmental Services)
Mike O'Keefe (Environmental Services)
Lisa Kimura (Environmental Services)
Jack Pobuk (Environmental Services)
Ernie Lau (Board of Water Supply)
Dominic Dias (Board of Water Supply)
Marc Chun (Board of Water Supply)
Erwin Kawata (Board of Water Supply)
Dori Amano-Mitsui (Parks and Recreation)
Roger Morton (Transportation Services)
Chris Clark (Transportation Services)
Aedward Los Banos (Community Services)
Darrell Young (Community Services)
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Mary Alice Evans (OPSD), Kauaʻi PIG Co-Chair*
Michael Dahilig (Mayor's Office)*
Alan Clinton (Planning)
Steven Hunt (Finance)
Celia Mahikoa (Transportation Agency)
Judy Hayducksko (Water)
Adam Roversi (Housing Agency)
Allison Rettig (Housing Agency)
Steven Franco (Housing Agency)

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Mary Alice Evans (OPSD), Maui PIG Co-Chair*
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Jacky Takakura (Planning)
Scott Forsythe (Planning)
Michele McLean (Planning)*
Brendon Conboy (Planning)*
Steve Tesoro (Finance)
David Yamashita (Parks and Recreation)
Michael DuPont (Transportation)
Wendy Taomoto (Public Works)
Rowena Dagdag-Andaya (Public Works)
Dave Taylor (Water Supply)

Project Advisory Group (PAG)

*Change in Employment Status - Joined or left during the study

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Mary Alice Evans*
Scott Glenn*

Hawaii Housing Finance and Development Corporation

Dean Minakami

Hawaii Community Development Authority

Craig Nakamoto

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Dan Kouchi
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Department of Accounting and General Services

Keith Regan
Chris Kinimaka

Department of Budget and Finance

Sabrina Nasir

State Senate

Senator Brandon Elefante

Senate CIP Manager

Senator Gilbert Keith-Agaran*

House of Representatives

Representative Chris Todd

City and County of Honolulu
Mike Formby

County of Hawaiʻi
Mayor Mitch Roth
Zendo Kern
Natasha Soriano
John Andoh*

County of Kauaʻi
Jodi Higuchi Sayegusa
Steven Hunt
Reiko Matsuyama

County of Maui
Josiah Nishita

Appendix 3: Profile of TOD Pilot Areas

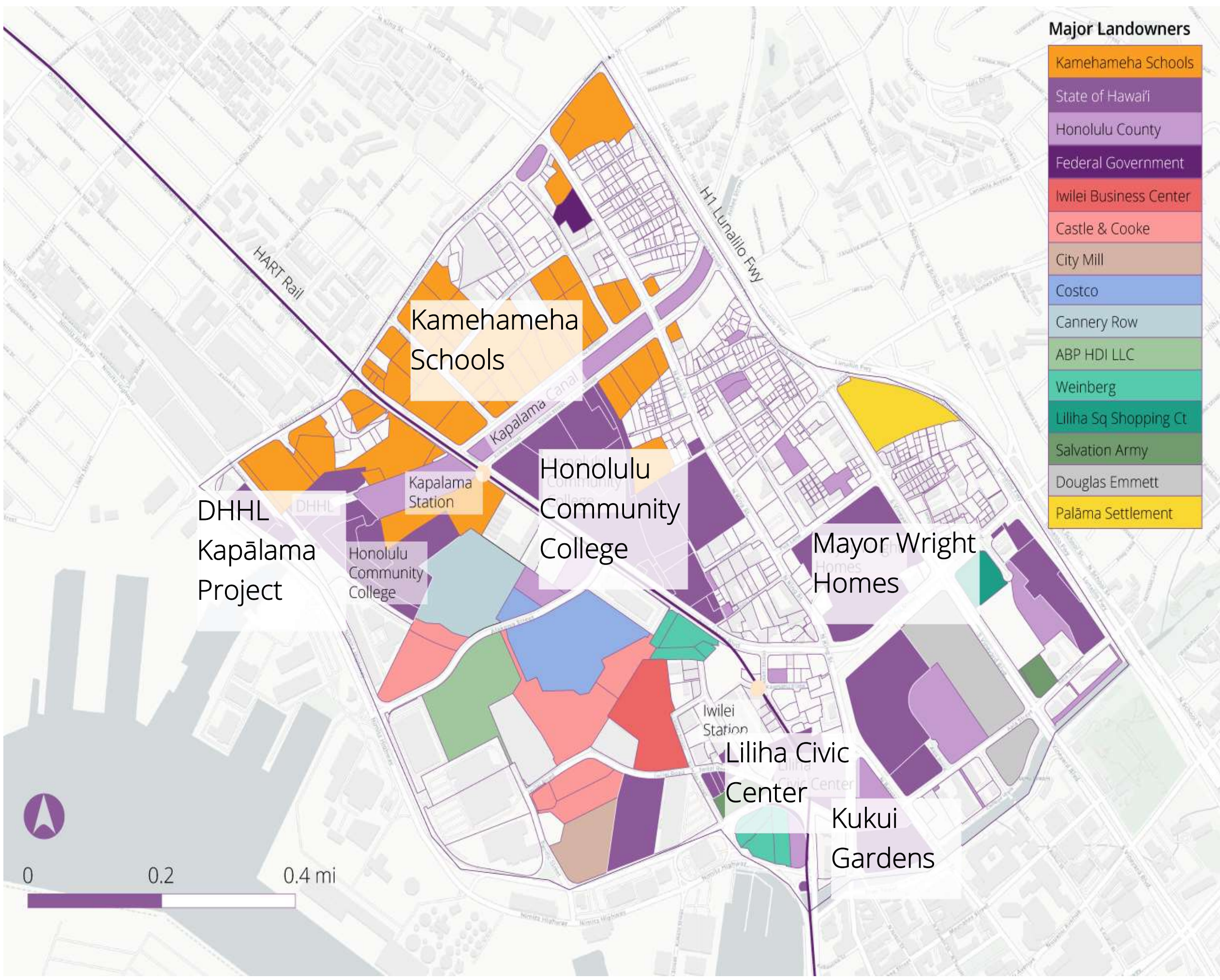
The State of Hawaiʻi has designated 56,976 acres of land as "TOD Areas," 15,888 acres of which (27.9%) is owned by the State or Counties.

The four TOD Pilot Areas – Iwilei-Kapālama on Oahu, the Kaʻahumanu Avenue Community Corridor on Maui, Līhuʻe Town Core on Kauaʻi, and the Ane Keohokalole Highway Corridor on Hawaiʻi are described in summary – including public ownership of land, anticipated development program, and known infrastructure needs – on the following pages.

Oʻahu | Iwilei-Kapālama

The Iwilei-Kapālama TOD Pilot Area is located in central Honolulu and bounded by Waiakamilo Road and the H-1 Freeway to the north, the H-1 Freeway and Nuʻuanu Canal to the east; Nuʻuanu Canal and Nimitz Highway to the south, and Nimitz Highway and Waiakamilo Road to the west.[84] The TOD Pilot Area is anchored by two planned rail stations with the Kapālama Station at the north and the Iwilei station at the south. The stations are part of the fourth and currently final planned rail system segment and are expected to open in 2031.

Figure 27 | Redevelopment Opportunities in Iwilei-Kapālama



The area has over 700 properties and covers approximately 552 acres. Of those, 96.5 acres are State land (17.4% of total), and 29.1 acres are City and County land (5.2%). Various State agencies own properties within the area, including office, open space, educational, and residential uses. The City owns a smaller number of properties, some of which are being considered for longer-term redevelopment. Private landowners with large properties in the

[84] "Infrastructure Improvement Master Plan for the Iwilei Area"

Iwilei-Kapālama TOD Pilot Area include Kamehameha Schools, Castle and Cooke, City Mill Co. Ltd., Costco, Douglas Emmett, The Salvation Army, and H & J Weinberg Foundation, Inc.

Figure 28 | Development Program in Iwilei-Kapālama

Use	Tenure/Use		Affordability		Program
	Name	% of Units / SF	Name	% of Units / SF	
Residential *(Total 27,400 Units)*	**Rental**	80%	**Affordable**	65%	14,100 Units
			Market	35%	8,500 Units
	For-Sale	20%	**Affordable**	45%	2,200 Units
			Market	55%	2,600 Units
Office	**State Offices**	100%			215,000 SF
	Market	0%			0 SF
Retail					400,000 SF
Industrial					190,000 SF
Hotel					No Development

Figure 29 | Unfunded Infrastructure Needs in Iwilei-Kapālama

Type of Infrastructure	Number of Projects	Funding Required ($M)
Drainage System Improvement	18	$234
Electrical System Improvement	15	$163
Sea Level Rise Mitigation	2	$153
Roadway Improvement	19	$53
Water System Capacity Improvement	23	$40
Sewer Capacity Improvement	7	$22
Improvement of Fire Facilities	2	$1
Wastewater Capacity Improvement	1	$1
Total	**87**	**$667**

Maui | Kaʻahumanu Avenue Community Corridor

The Kaʻahumanu Avenue Community Corridor stretches 2.5 miles along Main Street and Kaʻahumanu Avenue from South High Street on the west to Hana Highway on the east.[85] It covers approximately 2,000 acres, about 1,086 acres (54% of total) of which is State or County land. The corridor is the main thoroughfare connecting the urban centers of Kahului and Wailuku. Around one in five of Maui's 166,000 inhabitants live within half a mile of this corridor. The corridor is also the location of the island's major economic hub, hosting a large density of jobs, schools, healthcare services, government services, retail, commercial, and civic and recreational activities. By 2040, Maui's population is expected to increase by 33,000 inhabitants, and the Kaʻahumanu Avenue Community Corridor is set to become a key enabler of economic growth by promoting transitable, sustainable, and inclusive development.[86] Given the corridor's importance to the present and future growth of Maui's economy, the County chose this corridor as a TOD Pilot Area for this study.

Figure 30 | Redevelopment Opportunities: Kaʻahumanu Avenue Community Corridor

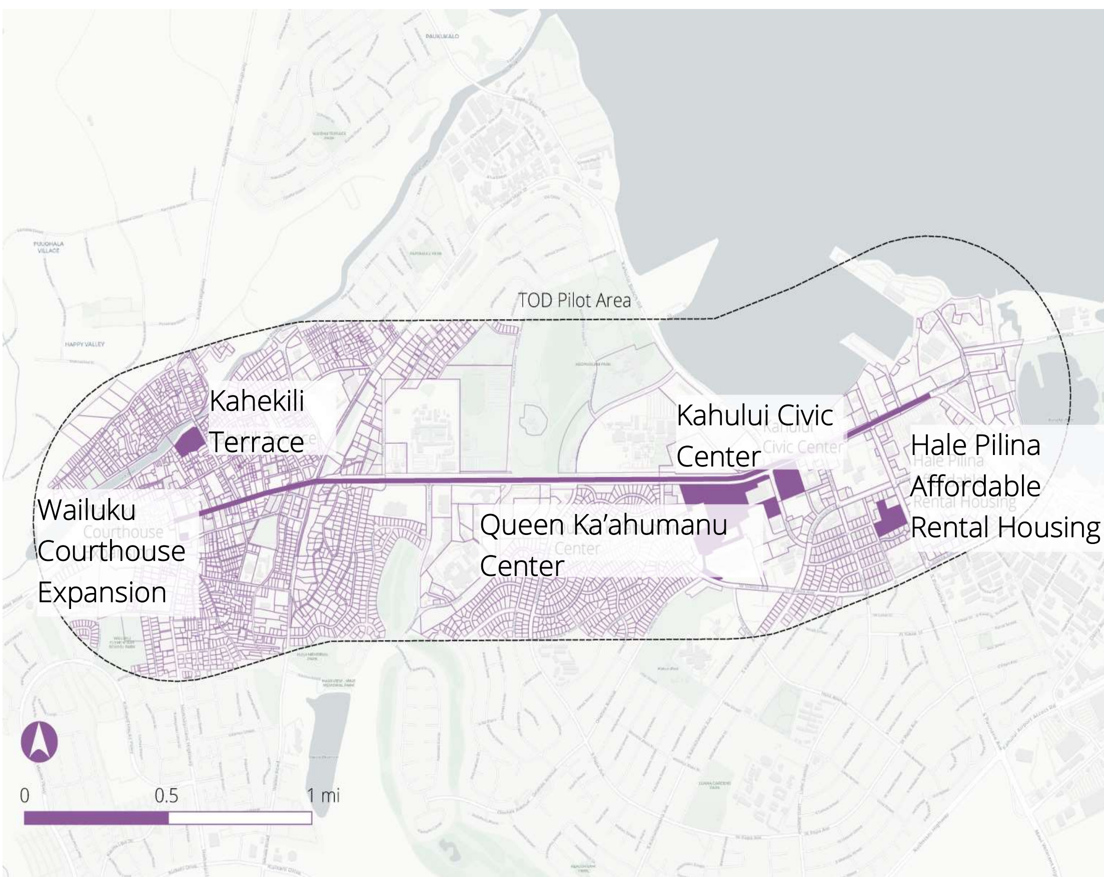


Figure 31 | Development Program in Kaʻahumanu Avenue Community Corridor

[85] Community Profile, 2021.
[86] Community Profile, 2021.

Use	Tenure/Use		Affordability		Program
	Name	% of Units / SF	Name	% of Units / SF	
Residential *Total 2,200 Units, 72% affordable and 28% at market rates*	**Rental**	64%	**Affordable**	79%	1,100 Units
			Market	21%	300 Units
	For-Sale	36%	**Affordable**	63%	500 Units
			Market	38%	300 Units
Office	**State Offices**[22]	0%			114,000 SF
	Market	0%			0 SF
Retail					5,000 SF
Industrial					0 SF
Hotel					0 Keys

Figure 32 | Unfunded Infrastructure in Kaʻahumanu Avenue Community Corridor

Projects	Type of Infrastructure	Unfunded Cost ($M)
Central Maui Reliable Capacity - Waihee Aquifer	Water	$7.3
Total Unfunded (known)		**$7.3**

Figure 33 | Social Infrastructure Needs in Kaʻahumanu Avenue Community Corridor

Projects	Type of Infrastructure	Unfunded Cost ($M)
Improvements to Kahekili Terrace	Affordable Housing	Unknown
Hale Pilina Family Affordable Rental Housing Project	Affordable Housing	Unknown
Kahului Civic Center Mixed Use	Affordable Housing / Govt. Offices / Community Facilities	Unknown
Wailuku Courthouse Expansion	Govt. Offices / Community Facilities	Unknown

Kauaʻi | Līhuʻe Town Core

Since TOD planning began in the mid-2000s, the Līhuʻe Civic Center has been the anchor of the town of Līhuʻe in Kauaʻi County, located west of the Līhuʻe Airport and the cruise ship terminal at Nāwiliwili Harbor. The area covers approximately 195 acres, 52 acres of which is State or County land (26.7% of total). The Civic Center was selected as a TOD Pilot Area because of its potential to help mitigate the housing and infrastructure constraints of the island. Engagement to date indicates that the island has a housing deficit of approximately 4,000 units (about 10% of existing housing stock) and a growing concern with regards to the availability of fresh water to enable new housing construction. The area has potential to support potential future TOD development, particularly through the promotion of walkability, transit accessibility, and affordable housing development on nearby State properties, such as the vacant former Police Station and underutilized Department of Health sites.

Figure 34 | Redevelopment Opportunities in Līhuʻe Town Core

Figure 35 | Development Program in Līhuʻe Town Core

Use	Tenure/Use		Affordability		Program
	Name	**% of Units / SF**	**Name**	**% of Units / SF**	**Name**
Residential *Total 775 Units, 61% affordable and 39% at market rates*	**Rental**	90%	**Affordable**	61%	425 Units
			Market	39%	275 Units
	For-Sale	10%	**Affordable**	67%	50 Units
			Market	33%	25 Units
Office	**State Offices**[28]	0%			0 SF
	Market	0%			0 SF
Retail					200,000 SF
Industrial					0 SF
Hotel					0 Keys

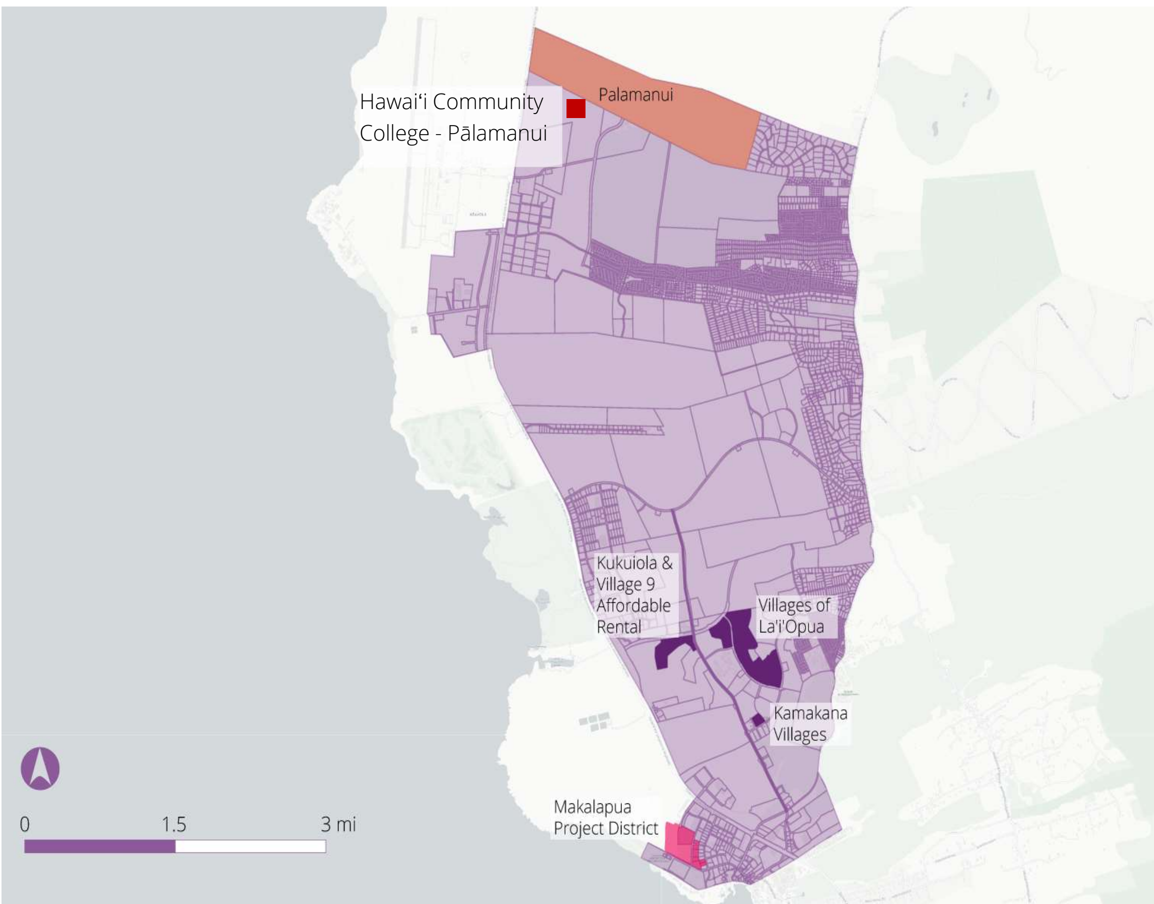
Figure 36 | Unfunded Infrastructure Needs in Līhuʻe Town Core

Projects	Type of Infrastructure	Cost ($M)
Civic Center Special Planning Area water and wastewater hook-up	Water Capacity Improvements	$2.9M
Rice Street Special Planning Area water and wastewater hook-up	Water Capacity Improvements	$5.1M
Additional Water Capacity Improvements	Water Capacity Improvements	Unknown
Līhuʻe Civic Center Mobility Plan	Transportation	Unknown
Total		**$8.0 M**

Hawaiʻi | Ane Keohokalole Highway Corridor

The 2.9-mile Ane Keohokalole Highway runs parallel to the Queen Kaʻahumanu Highway from Palani Road to Hina Lani Street, about a mile inland of the ocean. The TOD Pilot Area covers approximately 13,111 acres, 4,896 of which are State or County land (37.3% of total). Construction of the first phase of highway started on March 30, 2010, and ended in 2012.[87] The corridor is flanked at both the north and south ends of the highway by retail centers anchored by a Costco Wholesale at the north and a Walmart, Target, Safeway, and other shops and restaurants at the south. In the middle of the corridor is located the Kealakehe High School alongside some single-family housing developments. Although not in the corridor, UH- Hawaiʻi Community College, Palamanui Campus is close in proximity to the corridor. The County selected the corridor as a TOD Pilot Area given the opportunities for new development, particularly of affordable housing, along the highway.

Figure 37 | Map of Redevelopment Opportunities: Ane Keohokalole Highway Corridor



[87] "Public invited to opening ceremony of the Ane Keohokālole Highway Saturday," Hawaii 24/7, https://hawaii247.com/2012/06/20/public-invited-to-opening-ceremony-of-the-ane-keohokalole-highway-saturday-june-23/

Figure 38 | Development Program in Ane Keohokalole Highway Corridor

Use	Tenure/Use		Affordability		Program
	Name	% of Units / SF	Name	% of Units / SF	
Residential *(Total 4,010 Units, 50% affordable, 50% at market rates)*	**Rental**	37%	**Affordable**	51%	790 Units
			Market	49%	770 Units
	For-Sale	63%	**Affordable**	50%	1,300 Units
			Market	50%	1,300 Units
Office	**State Offices**	0%			0 SF
	Market	0%			0 SF
Retail					611,000 SF
Industrial					0 SF
Hotel					320 Keys

Figure 39 | Unfunded Infrastructure Needs in Ane Keohokalole Highway Corridor

Projects	Type of Infrastructure	Cost ($M)
New transportation, housing, and community facilities	Transit / Social Infrastructure	$51.30
Critical infrastructure for the overall viability of the area	Wastewater / Solid Waste / Wells	$182.70
Enabling offsite infrastructure for La'i 'Ōpua Villages	Water and Wastewater Distribution / Roads / Utilities / Extension of Ane Keohokālole Highway	$169.20
Enabling offsite infrastructure for Kamakana Villages	Wells / Reservoir / Sewer plant / Access roads	$58.50
Total		**$461.7**

Appendix 4: County 2023 CIP Projects for TOD Pilot Areas

City and County of Honolulu

In 2023, the City and County of Honolulu has committed to the following $337 million in improvements in Iwilei.

Figure 40 | City and County of Honolulu Iwilei CIP Projects Summary

Wastewater Projects in Iwilei	Total Approved 2023 CIP	Notes
Iwilei, King Street, Kokea Street Area Sewer Improvements (Proj. 2019067)	$12.8M	Construction estimated to start with FY2026 funding, with estimated cost of $11M.
Awa Street WWPS Improvements/Rehab (Proj. 2019046)	$15.8M	Construction estimated to start with FY2027 funding, with estimated cost of $12.5M.
Kalihi Kai Area Sewer Reconstruction/Rehabilitation (Proj. 2023052)	$59M	Construction estimated to start with FY2027 funding, with estimated cost of $55M.
Hart Street/Waiakamilo Road Replacement Sewer (Proj. 2019065)	$11M	Construction is on-going; completion projected for early 2024, with estimated cost of $10M.
Hart Street WWPS Force Main Improvements Phase 3 (Proj. 2017054)	$7.6M	Construction phase bid in 2023 using FY2024 funds, with construction cost of approximately $4M. Adjacent to Iwilei, but important to Iwilei
Hart Street WWWPS Upgrade (no Proj. # yet)	$11M	Construction estimated to start with FY 2025 funding, with estimated cost of $11M.
Kalihi / Nuuanu Area Sewer Rehabilitation/ Improvements (Proj. 2005075)	$104.4M	Construction estimated to start with FY2027 funding, with estimated cost of $32.4M.
Awa Street Wastewater Pumps, Force Main and Sewer System Improvements (Proj. 2011046)	$108.4M	New trunk sewer constructed in Waiakamilo Road – recently completed.

Kapalama Canal Catalytic Project – Transit Oriented Development (Proj. 2015091)	$4M	Construction projected to be complete in 2025.
Kapalama Canal Erosion Control, Stabilization, and Dredging – TOD (Proj. 2015102)	$850K	Project is ongoing, construction projected to be complete in 2029, with estimated cost of $35.4M.
Drainage Improvements in Kalihi (Proj. 2022136)	$0	$8M appropriated in 2022, though funding has lapsed.
Iwilei Station Master Plan Improvements (Proj. 2020097)	$0	Originally appropriated $8M, but project has been terminated.
Affordable Housing Infrastructure Regional Planning – Iwilei (Proj. 2024074)	$2M	Infrastructure planning for housing in Iwilei. The City and County is coordinating with HCDA.

County of Maui

In 2023, before the devasting wildfires, the Maui County Council approved $32.2 million in infrastructure improvements (items highlighted in grey) along the Kaʻahumanu TOD Corridor.

Figure 41 | County of Maui Ka’ahumanu TOD Corridor CIP Projects Summary

Projects along the Kaʻahumanu TOD Corridor	Total Approved 2023 CIP Budget	Approved 2024
Wailuku Civic Hub (Parking facility & plaza)	$5.5M	$3.5M
60 S. Church St (Hawaiian Telcom) Building Renovations	$9.4M	$3.9M
Halau of Oiwi Arts (Market & W Vineyard)	$54M	$11M
War Memorial Gym Building Improvements	$24M	$4M
Central Maui Pickleball Courts	$1M	$1M
Transportation Base yard Facility (bus/maint.)	$22.4M	$2.4M
Maui Lani Parkway Extension (planning)	$2M	$1M
Central Maui Reliable Capacity (Waiehu well)	$2.3M	$.3M

County of Kauaʻi

In 2023, the Kauai County Council approved a CIP budget of $10.5 million in infrastructure improvements (items highlighted in grey) in Līhuʻe. Unfunded, but needed, projects total $23.85 million.

Figure 42 | County of Kauaʻi Līhuʻe TOD Area CIP Projects Summary

Projects in the Līhuʻe TOD Area	Funds Budgeted as of 2023	Total Budget Required	(Future Unfunded) FY 24-25
Hoolako Street Drainage Repairs	$1.75M	$1.75M	$0
Haleko Road Improvements	$.5M	$3M	$2.5M
Lihue WWTP Facility Plan	$.5M	$1M	$.5M
Lihue WWTP Process Upgrades	$3M	$20.5M	$17.5M
Lihue WWTP Digester Upgrades	$0	$1.625M	$1.625M
Septic Receiving Station Rehab for Lihue and Eleele	$0	$.5M	$.5M
Lihue WWTP Well Cleaning	$0	$.45M	$.45M
Lihue WWTP Roof Replacement	$0	$.275M	$.275M
Lihue WWTP Office and Bathroom Repairs	$.25M	$.75M	$.5M
Vidinha Stadium Improvements	$13M	$15M	$2M
Lihue Neighborhood Center Design Improvements	$0	$.75M	$.75M
Lihue Lighted Skatepark and Pickleball Courts	$1.4M	$2M	$.6M
Kauai Resource and Recycling Center Reroof	$.95M	$.95M	$0
Replace Or Improve Comfort Stations (Lihue Park)	$.75M	$.75M	$0
Replace HVAC and Electrical Repairs at Ke Hale Makai Police Center	$5.75M	$8.5M	$2.75M
KPD Evidence Vehicle Storage	$.25M	$.25M	$0
KPD Training and Lab Building at Ke Hale Makai Police Center	$0	$8M	$8M
Replace Security Gate System at Ke Hale Makai Police Center	$0	$.175M	$.175M
Public Safety Radio Communications System - Building Replacement	$4M	$4.5M	$.5M
Emergency Power-Moikeha Building	$.25m	$.25M	$0
Lihue DMV Integration	$0	$.3M	$.3M
Extension of Apparatus Bay Lihue Station	$0	$.975M	$.975M
BMP Improvements at Various Refuse Transfer Stations	$1.5M	$15M	$13.5M
Halehaka Landfill Gas System Improvements	$0	$.9M	$.9M
Kauai War Memorial Convention Hall Improvements	$2.48M	$4,2M	$1.72M

Projects in the Līhuʻe TOD Area	Funds Budgeted as of 2023	Total Budget Required	(Future Unfunded) FY 24-25
Pi'ikoi Building Big Save Renovation	$7M	$9,5M	$2.5M
Kalena Park Improvements	$.075M	$.075M	$0
Helicopter Hangar	$.7M	$1.5M	$.8M
Kauai Bus Yard Expansion Project	$4.5M	$4.5M	$0

Appendix 5: County Fiscal Outlooks

COUNTY FISCAL OUTLOOK | City and County of Honolulu

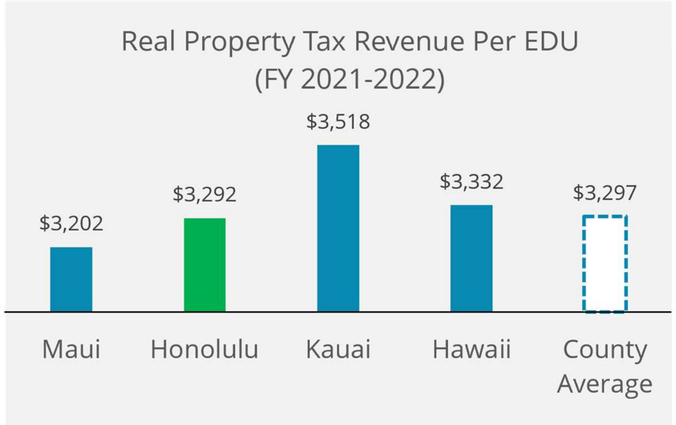
County General Fund, FY2018-2019*

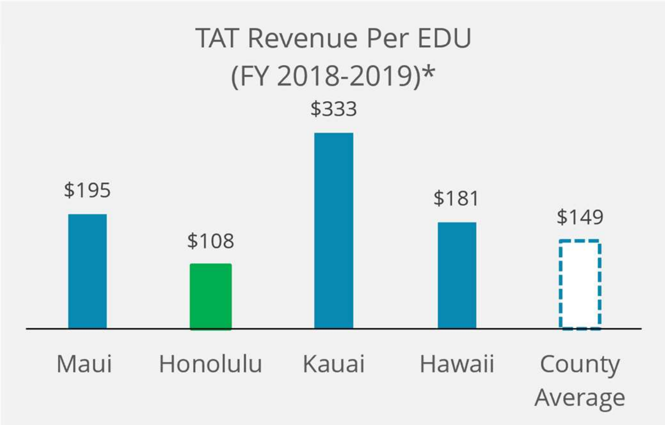
Item	$M	% of Total
Revenue from Taxes		
Real Property Taxes	$1,268.45	79%
TAT Transfer	$45.42	3%
Utilities Fees	$46.01	3%
Miscellaneous Fees**	$217.55	14%
Grants and Transfers	$25.58	2%
Total Fund	$1,603.00	100%
GET Surcharge Revenue	$270.00	17%

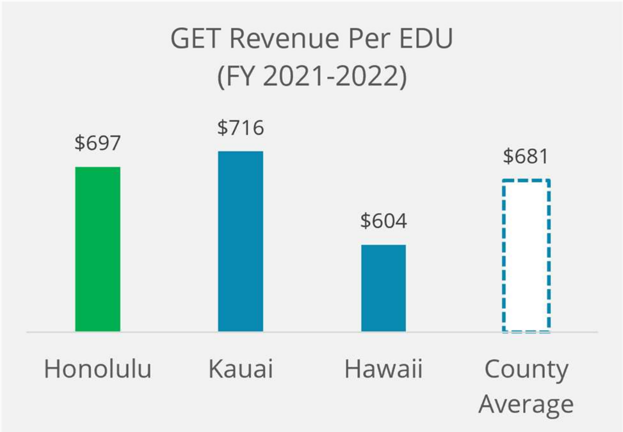
(*) Latest budget that is representative of TAT revenue within general fund, given COVID-19 pandemic and related suspension of TAT collection (**) Revenue from licenses and permits, fish and wildlife services, fines and forfeits, and other miscellaneous sources.

Key Takeaways for Infrastructure Funding:

- The County's budget has a high reliance on property tax revenue. However, effective property tax rates for in-State (0.4%) and out-of-state owners (0.46%) are less than half of the nationwide average (1.1%). At the current tax rates, property tax increment can bring in meaningful resources only in areas of high growth and high property values.
- Revenue from the GET surcharge, dedicated fully to the HART rail line, represents a significant share of the County's General Funds revenues (17%). The volume of resources a new GET surcharge could bring for infrastructure investments are likely significant.
- TAT provides relatively marginal revenues (2% of total funds) and revenue per EDU are below the average of Counties in Hawaiʻi. Given its relatively small tax base and weight in County finances, the TAT rate would have to be increased by a large amount to bring in additional resources for infrastructure funding.
- Revenue from Miscellaneous Fees are a significant share of the County's General Fund (14%). Depending on the regulations concerning the use of funds from each fee, it could be possible to earmark part of their revenue for infrastructure funding.







COUNTY FISCAL OUTLOOK | Maui County

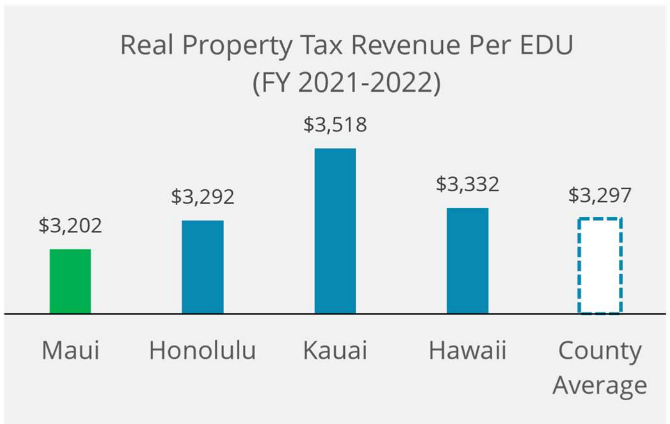
County General Fund, FY2018-2019*

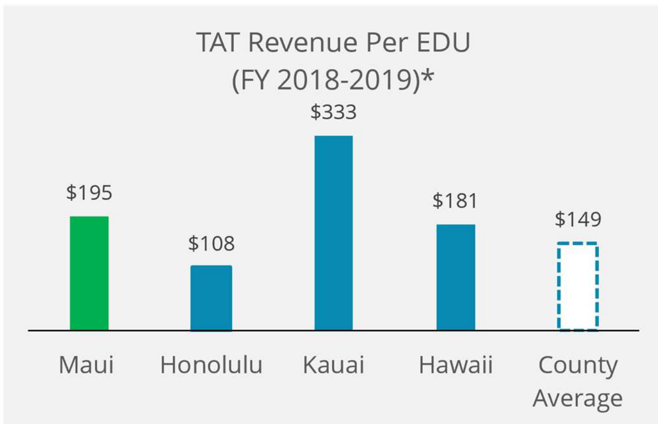
Item	$M	% of Total
Revenue from Taxes		
Real Property Taxes	$319.98	84%
TAT Transfers	$23.48	6%
Utility Fees	$7.82	2%
Federal payment in lieu of taxes	$0.07	0%
Miscellaneous Fees**	$28.94	8%
Total Fund	$380.29	100%

(*) Latest budget that is representative of TAT revenue within general fund, given COVID-19 pandemic and further suspension of TAT collection.
(**) Revenue from licenses and permits, fines and forfeits, and other misc. sources.

Key Takeaways Relevant for Infrastructure Funding

- Maui County has a high reliance on property tax revenue, although its collection per equivalent dwelling unit (EDU) is the lowest among counties and effective tax rates are lower than the national average of 1.1%. At the current rates, using property tax revenue for district-based financing could only bring significant revenues if implemented in areas with high growth and property values.
- Maui County does not implement the General Excise Tax (GET) surcharge, although it is authorized to do so by State legislation. GET represents a moderate to large source of resources in other counties and implementing in Maui could bring significant resources for infrastructure investments.
- Prior to COVID-19, TAT collection per EDU was above the average for all Counties in Hawai'i but was of moderate importance, representing 6% of the County's General Fund. Therefore, the TAT rate would likely need to undergo a large increase in order to bring meaningful additional resources.
- Revenue from Miscellaneous Fees are a significant share of the County's General Fund (8%). Depending on the regulations concerning the use of funds from each fee, it could be possible to earmark part of their revenue for infrastructure funding.





COUNTY FISCAL OUTLOOK | Kaua'i County

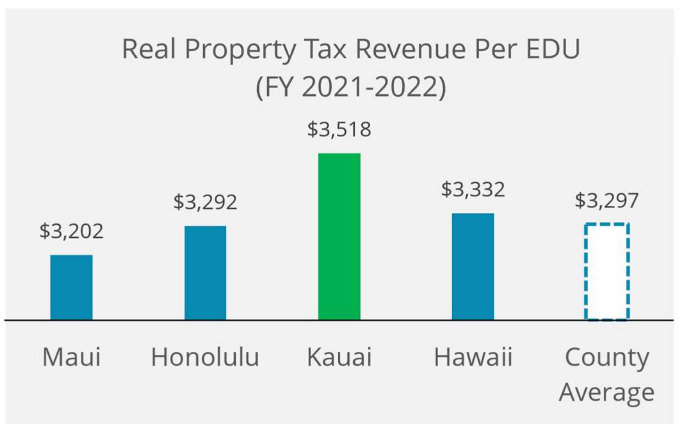
County General Fund, FY2018-2019*

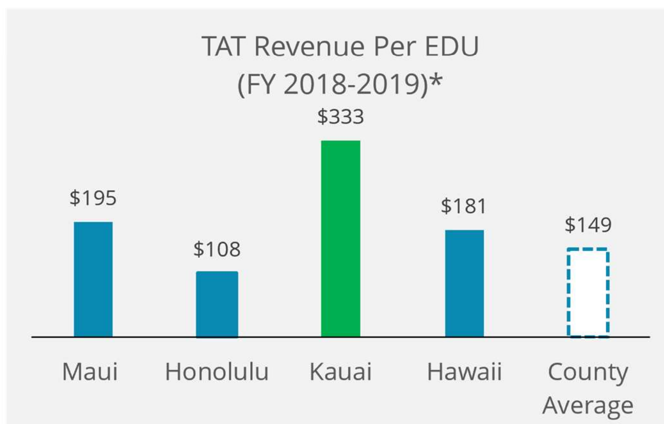
Item	$M	% of Total
Revenue from Taxes		
Real Property Taxes	$135.46	73%
TAT Surcharge	$14.90	8%
GET Surcharge	$12.50	7%
Utility Fees	$3.20	2%
Miscellaneous Fees***	$20.49	11%
Total Fund	$159.15	100%

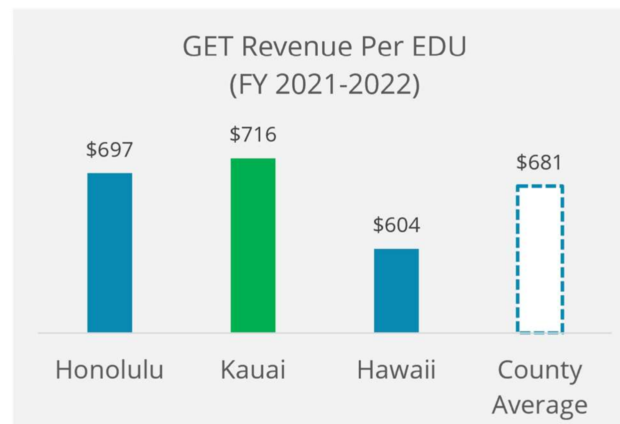
(*) Latest budget that is representative of TAT revenue within general fund, given COVID-19 pandemic and further suspension of TAT collection.
(***) Revenue from licenses and permits, investments, property, inter-gov. revenues, and charges for current services.

Key Takeaways relevant for Infrastructure Funding:

- Kaua'i County has a high reliance on property tax revenue. At the same time, the effective rate of property tax (0.56% of home value for in-State owners, 1.05% for out-of-State owners) is relatively low when compared with other States, although its collection per equivalent dwelling unit (EDU) is the largest among the four counties. At the current tax rates, property tax increment can bring in meaningful resources only in areas of high growth and high property values.
- Revenue from GET and TAT represent a moderate share of county revenues (7% and 8% of the County's General Fund in the last fiscal year prior to the COVID-19 pandemic, respectively), despite bringing the largest collection per EDU when compared with other counties in the State. Increasing rates would likely provide a meaningful but only complementary source of funding for infrastructure investments, assuming the County finds other resources to cover these investments.
- Revenue from Miscellaneous Fees are a significant share of the County's General Fund (11%). Depending on the regulations concerning the use of funds from each fee, it could be possible to earmark part of their revenue for infrastructure funding.







COUNTY FISCAL OUTLOOK | Hawai'i County

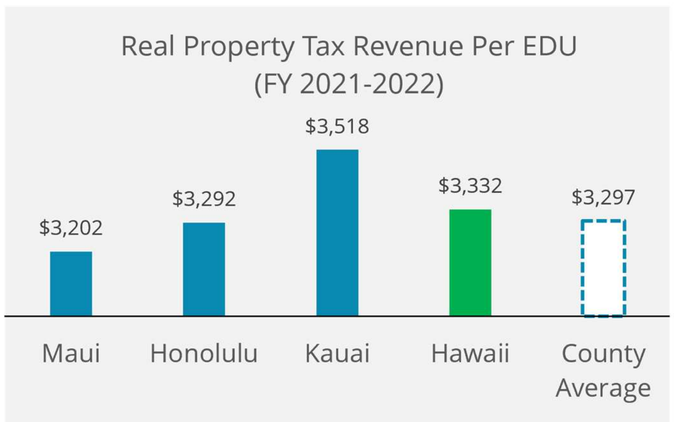
County General Fund, FY2018-2019*

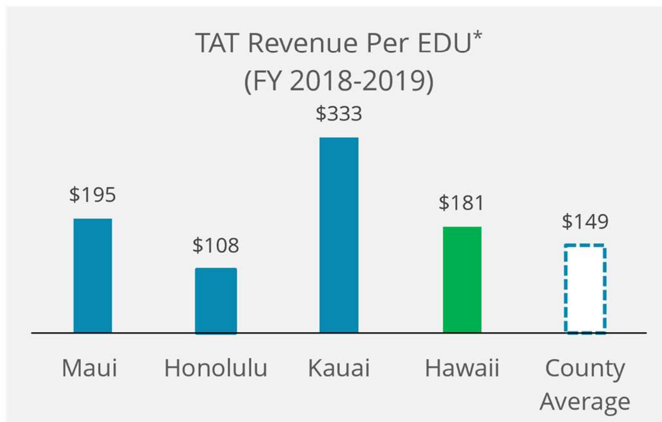
Item	$M	% of Total
Revenue from Taxes		
Real Property Taxes	$424.01	66%
TAT Surcharge	$19.00	3%
GET Surcharge**	$50.00	8%
Other Taxes	$8.80	1%
Miscellaneous Fees	$50.88	8%
Grants and Transfers	$94.63	15%
Total Fund	$647.32	100%

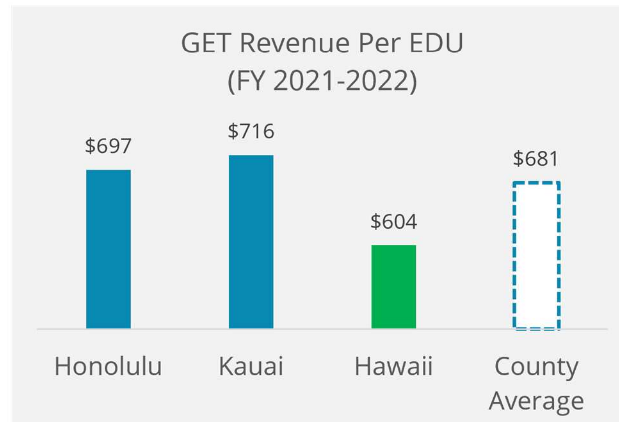
(*) Latest budget that is representative of TAT revenue within general fund, given COVID-19 pandemic and further suspension of TAT collection. (**) GET Surcharge is not part of the General Fund but included for ease of comparison. (***) Accounts for intergovt. revenue charges for services, fines and forfeitures, and other misc. revenues,

Key Takeaways Relevant for Infrastructure Funding

- Hawai'i County has a high reliance on property tax revenue. Effective property rates tax for in-state owners are low when compared with the national average (0.9% versus 1.1%), although out-of-State owners are charged significantly more (2.22% of home values). At the current tax rates, property tax increment can bring in meaningful resources only in areas of high growth and high property values.
- Revenue from the new GET surcharge is becoming a significant source of county revenue, at 8% of the County's General Fund, although it is below the amount collected per equivalent dwelling unit (EDU) on Oahu and Kaua'i. Therefore, increasing rates would likely provide a meaningful but only complementary source of funding for infrastructure investments, assuming the County finds other resources to fund these investments.
- TAT provides a relatively marginal share of revenues (3% of the General Fund). Therefore, the TAT rate would likely have to be increased substantially to bring meaningful additional resources for infrastructure investments.
- Revenue from Miscellaneous Fees are a significant share of the County's General Fund (11%). Depending on the regulations concerning the use of funds from each fee, it could be possible to earmark part of their revenue for infrastructure funding.







Appendix 6: Financial Analysis Methodology

Overall Methodology

This section summarizes the methodology of the financial analysis from Phase 3 of this study.

Step 1. The Consultant Team identified potential building typologies in each TOD Pilot Area including:

1. Rental and for-sale residential units, by market segment (market-rate and affordable) and physical characteristics (single-family, low-rise, mid-rise, or high-rise);
2. Retail space;
3. Office space;
4. Industrial space; and
5. Hotels.

Step 2. The Consultant Team built an assumed development program for each TOD Pilot Area and estimated an associated pace of development and absorption over a period of 45 years (2025-2070) for each. Each development program considered the listed building typologies and was based on:

1. The pipeline of projects identified in Phase 1 and the Consultant Team's own demand analysis for the different real estate uses within the TOD Pilot Areas, which informed the number of new residential units; retail, office, and industrial square footage (SF); and hotel keys.
2. A breakdown of the new number of units and SF by building typology (for instance, the share of residential units in each area that would be for-sale at market prices in low-rise buildings), based on development in the TOD Pilot Areas in the past decade, master plans for future communities, and interviews with stakeholders.
3. A demand analysis and the historic pace of absorption in each TOD Pilot Area, which informed assumptions on the pace of development.

Step 3. The Consultant Team conducted a financial feasibility analysis where it determined, for each building typology present in each TOD Pilot Area's development program:

1. Whether the given building typology is financially feasible given current conditions, including development costs, operating costs, expected revenues (i.e., rents or sale prices), and expected rates of return for developers; and
2. For those typologies that are not financially feasible given current conditions, the price points, in terms of rents or sale prices, at which each would be profitable for a developer to pursue them.

Step 4. Based on Step 3's financial feasibility analysis, the Consultant Team estimated:

1. The **market value** of each unit or SF by typology, representing the value at which a property may be sold in an arms-length transaction between private parties. For new development to be feasible, the market value of a property needs to be greater than the

cumulative cost of development plus a fair market return. When prevailing conditions resulted in a market value less than its development cost and a fair market return (i.e., development is infeasible), the Consultant Team used the minimum market value necessary to make development viable for purposes of projecting value capture revenue. Note that the rent or sale prices of some development typologies are compatible with a second-home or tourism-oriented market, rather than the workforce market that the County governments intend for housing development in the TOD pilot areas. At rents/for-sale prices affordable to the workforce, some of the building typologies assumed would not be pursued by a private developer.

2. The **assessed value** of each unit or SF by typology, which is typically less than the property's market value and, less any exemptions and when multiplied by the property's real property tax (RPT) rate, calculates total RPT due.[88]
3. The **excess value** of each unit or SF by typology, which is the project's market value, minus all development costs (including construction, land, and financing) and the developer's expected profit or returns. A positive excess value indicates that: a) the project is financially feasible for a private developer; and b) there is potential to absorb some additional assessments or fees without risking its financial feasibility.

Step 5. Having established the above parameters, the Consultant Team estimated revenues generated for each value capture instrument for the 2025-2070 period, as follows:

1. **Tax Increment Financing** revenues, estimated as the difference between: i) the baseline revenue from RPT in the TOD Pilot Areas prior to 2025; and ii) the sum of the RPT revenues from new development (including from identified and defined projects, as well as units and non-residential space that the Consultant Team estimates will need to be built in order to accommodate demand for housing and other uses) as well as the increment in assessed value of existing properties that takes place after the TIF district is created. Further, the estimates of TIF revenues assumed: a) existing exemptions on the assessed value of residential properties, as regulated by State and County legislation; and b) that exemptions due to expire in future years would be renewed.
2. **Revenues from Special Assessment Districts,** in the form of special taxes under a CFD or a special assessment in a SID. The creation of these districts would be difficult at a district-wide level given the multitude of landowners. Therefore, the Consultant Team estimated revenues from creating Special Assessment Districts on specific developments identified in Phase 1 that are built over large, single-ownership landholdings and that possess a market-rate component in their program. Moreover, the Consultant Team assumed that the special assessment:
    a. Would be applied only on those building typologies that present a positive excess value; and

[88] The local code of all counties in Hawai'i specifies that the assessed value of properties should reflect their market value. However, upon analyzing the sale price and assessed values of properties recently transacted, HR&A found that properties are usually assessed at a "discount" over its market value. HR&A estimated these discount rates by use in each TOD Pilot Area and applied them over the market value of each typology to estimate their assessed value.

b. In addition to the existing RPT rate charged, it would not exceed 1.2% of residential properties assessed value and 1.5% of commercial properties assessed value.[89]
c. The present value of the new assessment should not exceed the excess value estimated for each typology.

3. **The maximum potential revenue from charging one-time fees**, equivalent to the full excess value for each development typology. This represents the maximum amount of fees that can be charged without threatening the financial feasibility of development for private developers.
4. Revenue from **earmarking revenues from the Pilot Area from the existing County GET surcharge or from implementing an additional 0.5% surcharge** in Oʻahu, Kauaʻi, and Hawaiʻi, and from adopting an initial 0.5% surcharge in Maui. The Consultant Team assumed that the GET surcharge would be charged over construction expenses of development (except for affordable housing units and residential market units built within mixed-income projects, as their construction is exempt from GET)[90] as well as from ongoing spending in new retail foreseen in the development programs.
5. Revenue from **earmarking revenues from the Pilot Area from the existing County TAT 3% surcharge**. In these estimates, the Consultant Team assumed that the TAT surcharge would be charged on spending in new hotels foreseen in the development programs.
6. **Revenue from utility user charges for water, sewer, and electricity services**, based on the average consumption by residential and non-residential properties, and the average user charge.

Step 6. The Consultant Team estimated a possible range of debt financing that could be raised against TIF and CFD/SIDs, based on assumptions of year of issuance, debt-to-service coverage ratios, transaction costs, interest rates, and terms and maturities. The next section, “Financing Capacity Methodology and Assumptions” explains this analysis for each revenue stream.

Assumptions related to real estate conditions (for e.g., rents, sale prices, development costs, financing costs, expected rates of return, etc.) and tax matters (RPT exemptions by property type, tax rates, etc.) are summarized in the “Real Estate Assumptions” and “Fiscal Assumptions” sections below, respectively.

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[89] This benchmark was established upon analysis of the burden over assessed values of properties taxes and a special CFD taxes in the Kukui'ula CFD in Kauaʻi.
[90] Hawaiʻi Revised Statutes, §201H-36.

Financing Capacity: Methodology and Assumptions

The Consultant Team pursued the following methodology in estimating the financing capacity of TIF and CFD/SID revenues:

1. Assume a year of issuance (for instance, Year 5 or Year 10 upon the TIF or CFD/SID creation) and identify the annual revenue for that year. This approximates how much revenue the district would yield, on average, each year to service principal and interest payments ("the stabilized annual revenue").
2. Divide the stabilized annual revenue by a Debt-Service-Coverage-Ratio (DSCR). The DSCR is the ratio of revenue, divided by payments, that creditors would require the debt issuers to hold to diminish the risk of default. If a DSCR is 1.5, that means the annual revenue needs to be at least 1.5 times the annual debt service payment. The DSCR depends on the time the instrument is issued.
3. The gross bond issuance principal amount is estimated as if the stabilized annual revenue, adjusted by DSCR, would be lent for 30 years at a certain interest rate, which depends on market conditions as well as a risk premium demanded by investors.
4. Estimate reserves and cost of issuance, including:
   a. The Consultant Team is assuming a "grace period" between the issuance of the bond and the start of amortization payments. A reserve needs to be accounted for to pay interest between the debt issuance and the start of amortization payments;
   b. Administrative costs of issuances; and
   c. A debt service reserve, determined by a three-prong test, which is equivalent to the lesser of: (i) 10% of par amount of the bonds, (ii) maximum annual debt service, or (iii) 125% of average annual debt service.
5. Estimate the net bond issuance principal as the difference of (3) minus (4).

Financing capacity assumptions used are summarized below.

Assumption	TIF Bond	CFD/SID Bond
Total Term	30 Years	30 Years
Issuance Year	Year 5 or Year 10	Year 5 or Year 10
Start of Amortization Period from Issuance	5 Years	5 Years
Interest Rate (Fixed)	6% (3.5% in Interest Rate of AAA GO AAA scale from the Municipal Market Data, with an added a premium of 25 basis points plus 200 basis points in credit spread)	7.25% (County of Hawaiʻi, Kaloko Heights CFD Bond Issuance)
DSCR	1.5x (Assumed for TIF bonds in California)	3.0x (County of Hawaiʻi, Kaloko Heights CFD Bond Issuance)

Real Estate Assumptions

Category	Iwilei-Kapālama (O'ahu)	Ka'ahumanu Avenue Community Corridor (Maui)	Līhu'e Town Core (Kaua'i)	Ane Keohokalole Highway Corridor (Hawai'i)	Source
DEVELOPMENT COSTS					
Construction Costs					
Residential					
Townhomes Hard Costs per GSF		$440	$420	$440	*Group Pacific and PBR Hawai'i, based on comparable projects*
Townhomes Soft Costs (% of Hard Costs)		15%	15%	15%	*HR&A*
Low-Rise (1-2 Stories) Hard Costs per GSF	$475	$570	$594	$532	*Group Pacific and PBR Hawai'i, based on comparable projects*
Low-Rise (1-2 Stories) Soft Costs (% of Hard Costs)	15%	15%	15%	15%	*HR&A*
Mid-Rise (3-4 Stories) Hard Costs per GSF	$475	$570	$594	$532	*Group Pacific and PBR Hawai'i, based on comparable projects*
Mid-Rise (3-4 Stories) Soft Costs (% of Hard Costs)	15%	15%	15%	15%	*HR&A*
High-Rise (>=5 Stories) Hard Costs per GSF	$475				*Group Pacific, based on comparable projects*
High-Rise High-Rise (>=5 Stories) Soft Costs (% of Hard Costs)	15%				*HR&A*
Premium from O'ahu		20%	25%		*PBR Hawai'i, based on comparable projects*
Retail					
Ground Floor Hard Costs per GSF	$400.00	$512.50	$480.00	$507	*Group Pacific, based on comparable projects*
Soft Costs (% of Hard Costs)	15%	15%	15%	15%	*HR&A*
Industrial					
Ground Floor Hard Costs per GSF	$250.00				*Group Pacific, median of range provided*
Soft Costs (% of Hard Costs)	15%				*HR&A*
Hotel					
High-Rise Hard Costs per GSF		$625.00		$625.00	*Group Pacific, 3 Star Hotels*
Mid-Rise Hard Costs per GSF		$625.00		$625.00	*Group Pacific, 3 Star Hotels*
Soft Costs (% of Hard Costs)		20%		20%	*STR 2014, Average Upscale Class Hotels*
Financing Costs					
Shared Assumptions					
Average Loan Balance	60%	60%	60%	60%	*CBRE*
Loan Term/Constr. Period (months)	24	24	24	24	*CBRE*
Construction Loan Fees + Lenders Points	1.50%	1.50%	1.50%	1.50%	*CBRE*
Permanent Loan Fees + Lender Points	1.00%	1.00%	1.00%	1.00%	*CBRE*
Construction Loan Assumptions					
Loan-to-Cost Ratio	60.00%	60.00%	60.00%	60.00%	*CBRE*
Construction Loan Interest Rate	7.00%	7.00%	7.00%	7.00%	*CBRE*
Permanent Loan Assumptions					
Permanent Loan-to-Value Ratio	60%	60%	60%	60%	*CBRE*
DEVELOPMENT REVENUES					
Market Rate Residential - Rents					
Residential: Townhomes				$3.50	*Zillow, selected comps*
Low-Rise (1-2 Stories) (per NSF per Mo.)	$3.56	$4.66	$4.69	$4.01	
Prevailing Rent		$3.70	$3.80	$4.01	*CoStar, Selected Comps*
Rent Permitting Feasibility		$4.66	$4.69		*HR&A, own estimates*
Premium from Low-Rise to Mid-Rise	10%				*CoStar, Selected Comps*
Mid-Rise (3-4 Stories) (per NSF per Mo.)	$3.75	$4.55	$4.58	$4.55	
Prevailing Rent		$3.70	$3.85	$4.01	*CoStar, Selected Comps*
Rent Permitting Feasibility		$4.55	$4.58		*CoStar, Selected Comps*
Premium from Mid-Rise to High-Rise	5%				*CoStar, Selected Comps*
High-Rise (>=5 Stories) (per NSF per Mo.)	$3.95				
Affordable Residential - Rents					
Residential: Townhomes		$1.25		$1.85	*CoStar, Selected Comps*

Real Estate Assumptions

Category	Iwilei-Kapālama (Oʻahu)	Kaʻahumanu Avenue Community Corridor (Maui)	Līhuʻe Town Core (Kauaʻi)	Ane Keohokalole Highway Corridor (Hawaiʻi)	Source
Low-Rise (1-2 Stories) (per NSF per Mo.)	$1.80	$1.25	$1.50	$1.50	*CoStar, Selected Comps*
Mid-Rise (3-4 Stories) (per NSF per Mo.)	$1.80	$1.25	$1.50	$1.50	*CoStar, Selected Comps*
High-Rise (>=5 Stories) (per NSF per Mo.)	$1.80				*CoStar, Selected Comps*
Other Residential Income					
Laundry, pet fees, etc. (as % of EGI)	7.00%	7.00%	7.00%	7.00%	*HR&A*
Market Rate Residential - Sale					
Townhomes (per Unit)		$1,213,321	$1,179,403	$1,061,274	
Low-Rise (1-2 Stories) (per Unit)	$646,800	$612,497	$637,974	$549,286	
Mid-Rise (3-4 Stories) (per Unit)	$679,140				
High-Rise (>=5 Stories) (per Unit)	$711,480				
Residential: Townhomes (per NSF)		$809	$786	$708	*Zillow, Comps*
Prevailing Rent		$580	$600		*Zillow, Comps*
Rent Permitting Feasibility		$809	$786		*HR&A, own estimates*
Low-Rise (1-2 Stories) (per NSF)	$770	$875	$911	$785	*Zillow, Comps*
Prevailing Rent		$520	$480	$500	*Zillow, Comps*
Rent Permitting Feasibility		$875	$911	$785	*HR&A, own estimates*
Premium from Low-Rise to Mid-Rise	5%			5%	*Honolulu: Zillow*
Mid-Rise (3-4 Stories) (per NSF)	$809	$875	$911	$781	*Honolulu: Zillow*
Prevailing Rent				$500	*Honolulu: Zillow*
Rent Permitting Feasibility				$781	*Zillow*
Premium from Low-Rise to High-Rise	10%				*Zillow*
High-Rise (>=5 Stories) (per NSF)	$847				
Affordable Residential - Sale					
Townhomes (per Unit)		$605,100	$604,600	$560,900	*HHFDC, Affordable Housing Guidelines*
Low-Rise (1-2 Stories) (per Unit)	$643,000	$302,600	$302,300	$280,500	*HHFDC, Affordable Housing Guidelines*
Mid-Rise (3-4 Stories) (per Unit)	$643,000	$302,600	$302,300	$280,500	
High-Rise (>=5 Stories) (per Unit)	$643,000				
Office: Rents					
Rents (Gross per NSF per Yr.)	$35				*CoStar, Selected Comps*
Rents (Gross per NSF per Mo.)	2.88				
Retail - Rents					
Ground Floor (NNN per Yr.)	$34	$51	$43	$40	*CoStar, comps*
Prevailing Rent			$35		*CoStar, comps*
Rent Permitting Feasibility			$43		*CoStar, comps*
Ground Floor (NNN per NSF per Mo.)	$2.81	$4.25	$3.60	$3.33	
Industrial - Rents					
Ground Floor (NNN per Yr.)	$18				*CoStar, 2022 Avg Rent*
Prevailing Rent	$16.2				
Rent Permitting Feasibility	$18.3				
Ground Floor (MG per NSF per Mo.)	$1.52				
Hotel					
ADR (per room per day)				$361.24	*CoStar/STR: Jun-2022 to 2023 avg. Luxury, Upper Upscale, and Upscale, built after 2010*
SF per Room				300 SF	*Courtyard King Kamehameha's Kona Beach Hotel*
ADR (Gross per NSF per day.)				$1.20	*CoStar, County 2022-2023 Avg*
Charge (Gross per NSF per Mo.)				$36.12	
Other Income: Hotel Services (%ADR)				10%	*STR 2014, Average Upscale Class Hotels*
Vacancy					
Residential - Rental	2.50%	4.50%	2.00%	3.00%	*CoStar, County 10-year Avg*
Residential - Sale	2.50%	4.50%	2.00%	3.00%	*CoStar, County 10-year Avg*
Office	3.50%				*CoStar, County 10-year Avg*
Retail	3.50%	3.50%	2.50%	4.00%	*CoStar, County 10-year Avg*

Real Estate Assumptions

Category	Iwilei-Kapālama (Oʻahu)	Kaʻahumanu Avenue Community Corridor (Maui)	Līhuʻe Town Core (Kauaʻi)	Ane Keohokalole Highway Corridor (Hawaiʻi)	Source
Industrial	3.50%				*CoStar, County 10-year Avg*
Hotel	16.50%	23.50%		26.00%	*CoStar/STR: Jun-2022 to 2023 avg. Luxury, Upper Upscale, and Upscale, built after 2010*
Operating Expenses					
Operating Expenses (Residential, % of gross revenue)	25.00%	25.00%	25.00%	25.00%	*HR&A*
Unreimbursed OpEx (Office, % of gross revenue)	35.00%	35.00%	35.00%	35.00%	*HR&A*
Operating Expenses (Hotel, % of gross revenue)	60.00%	60.00%	60.00%	60.00%	*STR 2014, Average Full Service Hotels in Pacific Region*
LAND VALUE AND DEVELOPER PROFIT					
Project Reversionary Value					
Cap Rate: Residential	4.50%	5.00%	5.00%	5.50%	*CoStar, County 10-year Avg*
Cap Rate: Office	7.00%				*CoStar, County 10-year Avg*
Cap Rate: Retail	5.00%	6.00%	6.00%	6.00%	*CoStar, County 10-year Avg*
Cap Rate: Industrial	5.00%				*CoStar, County 10-year Avg*
Cap Rate: Hotel	7.50%	7.50%		7.50%	*CoStar, State-wide Avg, Sales Since January 2021*
Cost of Sale	2.00%	2.00%	2.00%	2.00%	*HR&A*
Land Sales					
Average Price Per Acre			$1,560,109		*Assessors County Offices, average of recent sales*
Mid- and High-Rise	$9,800,000	$1,500,000		$240,000	*Assessors County Offices, average of recent sales*
Low-Density Commercial	$9,200,000	$2,000,000		$1,400,000	*Assessors County Offices, average of recent sales*
Low-Density Industrial	$14,500,000				
Average Price Per SF					
Mid- and High-Rise Residential	$225	$34	$36	$5.5	
Low-Density Commercial	$211	$46		$32	
Low-Density Industrial	$333				
Developer Profit					
Residential for sale: Profit Margin (%)	15.00%	15.00%	15.00%	15.00%	*HR&A*
Premium over Cap Rate	0.75%	0.75%	0.75%	0.75%	*HR&A*
Residentail for rent: Return on Cost (%)	5.25%	5.75%	5.75%	6.25%	*Cap rate + 150 bps*
Office: Return on Cost (%)	7.75%				*Cap rate + 150 bps*
Retail: Return on Cost (%)	5.75%	6.75%	6.75%	6.75%	*Cap rate + 150 bps*
Industrial: Return on Cost (%)	5.75%				*Cap rate + 150 bps*
Hotel: Return on Cost (%)	8.25%	8.25%		8.25%	*Cap rate + 150 bps*
DEVELOPMENT PROGRAM					
Unit/Space Size (GSF)					
Townhomes	1,500 GSF	1,500 GSF	1,500 GSF	1,500 GSF	*HR&A*
Residential: Low-Rise Rental	700 GSF	700 GSF	700 GSF	700 GSF	*HR&A*
Residential: Mid-Rise Rental	700 GSF	700 GSF	700 GSF	700 GSF	*HR&A*
Residential: High-Rise Rental	700 GSF	700 GSF	700 GSF	700 GSF	*HR&A*
Size Premium on Multifamily For-Sale Product	20%	20%	20%	20%	*HR&A*
Residential: Low-Rise Sale	840 GSF	840 GSF	840 GSF	840 GSF	*HR&A*
Residential: Mid-Rise Sale	840 GSF	840 GSF	840 GSF	840 GSF	*HR&A*
Residential: High-Rise Sale	840 GSF	840 GSF	840 GSF	840 GSF	*HR&A*
Hotel	300 GSF	325 GSF	325 GSF	300 GSF	*HR&A*

Fiscal Assumptions

ALL STUDY AREAS

Valuation Period				
Period Start	2025	*HR&A*		
Period End	2070	*HR&A*		
Number of Years for Projections	45			
Property Tax Assumptions				
Delinquency Rate	6.2%	*Average for State of Hawaii. 2021 CoreLogic Annual Report*		

CFD Assumptions (from Kuku'iula CFD)	2021	2022	2023
Assessed Value	$2,718,700	$2,776,400	$3,031,900
Property Tax			
Payment	$26,779	$27,348	$29,864
% of AV	0.99%	0.99%	0.99%
CFD Assessment			
Payment	$2,179	$2,222	$2,267
% of AV	0.08%	0.08%	0.07%
Burden on AV (%)	1.07%	1.07%	1.06%

Source: https://qpublic.schneidercorp.com/Application.aspx?AppID=986&PageTypeID=4&KeyValue=260190150000

CFD Assessment		
Maximum Tax Burden Assumed on AV, Residential	1.20%	*HR&A, based on Kuku'iula precedent*
Maximum Tax Burden Assumed on AV, Commercial	1.50%	*HR&A, based on California precedents*
Maximum Annual Increment	2.00%	*Kaua'i County Code, Sec. 26-3.6 Special Tax for Residential Parcel.*
Tax Revenue Assumptions		
Discount Rate	3%	*HR&A*
Inflation Rate	2%	*World Economic Outlook, April 2023 - International Monetary Fund*

Iwilei-Kapālama (O'ahu)

Assumptions		
Assessed Value Annual Growth Rate	5.2%	*Avg Annual Growth Countywide AV, 2012-2021*
% Assessed Values over Market Value		
Residential	65%	*CoStar, recent sales*
Office	80%	*CoStar, recent sales*
Retail	75%	*CoStar, recent sales*
Industrial	85%	*CoStar, recent sales*
Hospitality	55%	*CoStar, recent sales*

Fiscal Assumptions

Property Tax Rate (%) - New Development		
Rental Market	0.35%	*Revised Ordinances of Honolulu, Chapter 8, Section 8-10.36*
Rental Affordable	0.00%	
For-Sale Market	0.35%	
For-Sale Affordable	0.35%	
State Office	0.00%	
Office	1.24%	
Retail	1.24%	
Industrial	1.24%	
Hospitality	1.39%	

Property Tax Rate (%) - Base		
Affordable Residential Rental	0.00%	*Revised Ordinances of Honolulu, Chapter 8, Section 8-10.36*
Residential	0.35%	
Commercial	1.24%	
Industrial	1.24%	
Hotel	1.39%	

Ka'ahumanu Avenue Community Corridor (Maui)

Assumptions		
Assessed Value Annual Growth Rate - New Development	5.8%	*Avg Annual Growth Countywide AV, 2012-2021*

% Assessed Values over Market Value		
Residential	80%	*Recent Sales registered in CoStar and Assessors Office*
Retail	84%	*Recent Sales registered in CoStar and Assessors Office*

Property Tax Rate (%) - New Development	TAX RATE (Per $1,000 Net Taxable Value)	%	
Rental Market	$3.00	0.30%	Maui Resolution 23-129, FD1
Up to $1,000,000	$3.00	0.30%	
$1,000,001 to $3,000,000	$5.00	0.50%	
More than $3,000,000	$8.00	0.80%	
Rental Affordable	$0.00	0.00%	
For-Sale Market	$3.50	0.35%	
Apartment	$3.50	0.35%	
For-Sale Affordable	$3.50	0.35%	
Apartment	$3.50	0.35%	
Retail	$6.05	0.61%	
Commercial	$6.05	0.61%	

Fiscal Assumptions

Property Tax Rate (%) - Base			
Agricultural	$5.74	0.57%	Maui Resolution 23-129, FD1
Owner Occupant			
Up to $1,000,000	$1.90	0.19%	
$1,000,001 to $3,000,000	$2.00	0.20%	
More than $3,000,000	$2.75	0.28%	
Non-Owner-Occupied			
Up to $1,000,000	$5.85	0.59%	
$1,000,001 to $3,000,000	$8.00	0.80%	
More than $3,000,000	$12.50	1.25%	
Timeshare	$14.60	1.46%	
Commercial	$6.05	0.61%	
Conservation	$6.43	0.64%	
Apartment	$3.50	0.35%	
Industrial	$7.05	0.71%	
Hotel Resort & Timeshare	$11.75	1.18%	

Exemptions on Assessed Value	$
Rental Affordable	$200,000
Rental Market	$200,000
For-Sale Market	$300,000
For-Sale Affordable	$300,000

Līhuʻe Town Core (Kauaʻi)

Assumptions		
Assessed Value Annual Growth Rate - New Development	4.7%	*Avg Annual Growth Countywide AV, 2013-2022*

% Assessed Values over Market Value		
Residential	70%	*HR&A, based on figures from other islands*
Retail	74%	*Recent Sales registered in CoStar and Assessors Office*

Property Tax Rate (%)	TAX RATE (Per $1,000 Net Taxable Value)	%	Source
Agricultural	$6.75	0.68%	Kauai 2023 Tax Rates
Commercial	$8.10	0.81%	
Commercialized Home Use	$5.05	0.51%	
Conservation	$6.75	0.68%	
Homestead	$2.59	0.26%	
Hotel and Resort	$10.85	1.09%	
Industrial	$8.10	0.81%	

Fiscal Assumptions

Residential	$5.45	0.55%	
Residential Investor	$9.40	0.94%	
Vacation Rental	$9.85	0.99%	

Property Tax Rate (%) = New Development	TAX RATE (Per $1,000 Net Taxable Value)	
Rental Affordable	0.26%	Kauai 2023 Tax Rates
Rental Market	0.55%	Kaua'i County Code, Sec. 5A-6.4 Real Property Tax Rate Classifications.
For-Sale Market	0.26%	
For-Sale Affordable	0.26%	
Office	0.81%	
Retail	0.81%	
Industrial	0.81%	
Hospitality	1.09%	

Exemptions on Assessed Value	$
For-Sale Market	$160,000
For-Sale Affordable	$160,000

Ane Keohokalole Highway Corridor (Hawai'i)

Assumptions		
Assessed Value Annual Growth Rate - Base, Residential	3.0%	*Hawai'i County Code, Real Property Taxes, § 19-53*
Assessed Value Annual Growth Rate - Base, All others	4.4%	*Avg Annual Growth Countywide AV of Residential Properties, 2012-2021*
Assessed Value Annual Growth Rate - New Development	4.4%	*Avg Annual Growth Countywide AV of Residential Properties, 2012-2021*

% Assessed Values over Market Value		
Residential	60%	*Recent Sales registered in CoStar and Assessors Office*
Retail	70%	*Recent Sales registered in CoStar and Assessors Office*
Hospitality	55%	*Recent Sales registered in CoStar and Assessors Office*

Property Tax Rate (%)	TAX RATE (Per $1,000 Net Taxable Value)	%	
Affordable Rental Housing	$6.15	0.62%	*Real Property Taxes, 2022-2023*
Rental Affordable	$6.15	0.62%	
Residential	$11.10	1.11%	*Idem*
Appartment	$11.70	1.17%	*Idem*
Rental Market	$11.70	1.17%	
Commercial	$10.70	1.07%	*Idem*

Fiscal Assumptions

Office	$10.70	1.07%	
Retail	$10.70	1.07%	
Industrial	$10.70	1.07%	*Idem*
Agricultural and Native Forest	$9.35	0.94%	*Idem*
Conservation	$11.55	1.16%	*Idem*
Hospitality	$11.55	1.16%	*Idem*
Homeowner	$6.15	0.62%	*Idem*
For-Sale Market	$6.15	0.62%	
For-Sale Affordable	$6.15	0.62%	

Exemptions on Assessed Value	**$**	
For-Sale Market	$50,000	*Hawai'i County Code, Section 19-71.*
For-Sale Affordable	$50,000	