HAWAII OFFICE OF PLANNING
TOD Council Meeting
TOD Infrastructure Financing
October 8, 2019
Introduction

Why are we here?

- Follow up to our last meeting from September 2018
- Identify potential options to pay for necessary public facilities

Building TOD infrastructure

- Allows for future development
- Attracts businesses and creates employment opportunities
- Provides for affordable housing
- Provides ready access to necessary public services and facilities
Agenda for today’s discussion:

- Review of public finance alternatives to fund infrastructure
- Relevance with respect to principles of public finance theory
- Creative hybrid applications
- What does this mean for the State and Counties of Hawaii?
Review of Public Finance Alternatives: Funding Sources

**New Revenue Sources**
- Revenue Bonds
- Community Facilities Districts
- Improvement Districts
- Impact Fees
- Proposed Legislation

**Outside Funding Sources**
- GO Bonds
- P3
- Grants and Loans

**Developer Incentives**
- Opportunity Zones
- Low Income Housing Credit
- NMTC

**Diversion of Existing Revenue Sources**
- Tax Increment
- PILOT
- GET / Sales Tax
- COP/Lease
- Revenue Bonds
• For a project to be financeable now, it needs a clear revenue stream in the future

• Financing is the raising of this upfront capital to expedite the process

• Funding is the revenue stream in the future to repay the financing
# Review of Public Finance Alternatives: Types of Financing Mechanisms

<table>
<thead>
<tr>
<th>Name</th>
<th>Brief Description</th>
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<tbody>
<tr>
<td>Community Facilities Districts</td>
<td>District authorized to levy special taxes to fund public improvements or services</td>
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<tr>
<td>Utility Revenue Bonds</td>
<td>Municipal bonds that finance public utility projects and are secured by a specified revenue source (water, sewer rates)</td>
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<tr>
<td>GO Bonds</td>
<td>Municipal bond backed by the “full faith and credit” of the issuing jurisdiction rather than the revenue from a given project</td>
</tr>
<tr>
<td>Tax Increment Revenues/PILOT</td>
<td>Property tax revenue that results from an increase in assessed value above the base year</td>
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<tr>
<td>Public-Private Partnerships (P3)</td>
<td>Contractual agreement between a public and private entity to deliver a service or facility for the benefit of the general public</td>
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<td>Impact Fees/Capacity Charges</td>
<td>Fee imposed on new development by a local public agency to mitigate the impacts of such development on public infrastructure</td>
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<tr>
<td>Lease Revenue Bonds/Certificates of Participation (COP)</td>
<td>Bonds/Certificates that are repaid by income generated by the project, including lease payments by a public entity for a capital asset.</td>
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## Review of Public Finance Alternatives: Types of Financing Mechanisms

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<th>Name</th>
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<tr>
<td>Improvement Districts and Special Improvement Districts</td>
<td>District authorized to levy assessments to fund public improvements (ID) or services (SID)</td>
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<tr>
<td>GET/Sales Tax and Excise Tax</td>
<td>Tax revenue resulting from sales of good and services</td>
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</tbody>
</table>
| Grants and Loans | • Transportation Infrastructure Finance and Innovation Act (TIFIA)  
• Dwelling Unit Revolving Fund (DURF)  
• State Revolving Fund  
• FTA Small Starts/New Starts |
| Opportunity Zones | Program that provides incentives for investors to re-invest unrealized capital gains into Opportunity Funds in exchange for temporary tax deferral and other benefits |
| New Market Tax Credits | Federal tax credit program that provides incentives to attract private investment in distressed communities |
| Low Income Housing Tax Credit Program | Federal and state subsidy that provides financing for low income housing by allowing investors to claim tax credits on their income tax returns |
| Proposed Legislation | Future State legislation to fund TOD |
RELEVANCE WITH RESPECT TO PRINCIPLES OF PUBLIC FINANCE THEORY
Relevance with respect to principles of public finance theory
There are six (6) features that will be considered in evaluating alternative financing mechanisms for TOD improvements:

- Yield/Revenue Potential
- Equity
- Efficiency
- Administrative Ease
- Transparency
- Political and Legal Feasibility
# Relevance with respect to principles of public finance theory: Comparative Costs of Financing Mechanisms

<table>
<thead>
<tr>
<th>Funding Mechanism</th>
<th>Cost of Capital</th>
<th>Timeframe for Issuance</th>
<th>Political Difficulty</th>
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<tbody>
<tr>
<td></td>
<td>Low</td>
<td>Med</td>
<td>High</td>
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<tr>
<td>GO Bonds</td>
<td>$</td>
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<tr>
<td>CFD Bonds</td>
<td>$$$</td>
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<tr>
<td>Value Capture Bonds</td>
<td>$$$</td>
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<tr>
<td>Revenue Bonds</td>
<td>$$</td>
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Types of infrastructure to be funded
Who is responsible for infrastructure
When is the infrastructure needed?
Are funds already committed, planned, and/or budgeted?
Who benefits from the infrastructure?
Ease of implementation
CREATIVE HYBRID APPLICATIONS
Creative Hybrid Applications: Overview

- What is a successful outcome?
  - Needed infrastructure constructed in a timely manner
  - Stakeholders work together to achieve common interests
Creative Hybrid Applications: Case Studies

Hudson Yards, NY

• Key Financing Mechanisms: City Contribution, Developer Investment, and PILOT.

• Agencies Involved: Transit Authority, City, Industrial Development Agency.

• Summary: City utilized PILOT to control property tax liability for different areas of the project. City issued revenue bonds to fund costs related to the construction of the No. 7 subway line.

• Key Takeaway: PILOT can be used effectively in a mixed-use transit-focused development; can be tailored specifically to each TOD area.
Ladera Ranch Development, Orange County, CA

• Key Financing Mechanisms: multi-Jurisdictional CFDs, G.O. bonds, revenue bonds, and impact fees.

• Agencies Involved: County, School District, Water District, Toll Road Authority.

• Summary: Bonds issued by multiple jurisdictions to needed public infrastructure.

• Key Takeaway: Coordination between multiple agencies with varying priorities.
Creative Hybrid Applications: Case Studies

Buena Park Mall, CA

• Key Financing Mechanisms: CFD, Value Capture.

• Agencies Involved: City, Redevelopment Agency.

• Summary: CFD issued bonds to pay for needed public improvements at the Buena Park Mall. CFD taxes were offset by sales tax and other incremental revenues generated by the project.

• Key Takeaway: Upfront financing (CFD) with takeout funding (value capture).
WHAT DOES THIS MEAN FOR THE STATE AND COUNTIES OF HAWAII?
What does this mean for State and Counties of Hawaii?

- No one-size-fits-all solution to funding major infrastructure projects
- Seek coordination and collaboration on infrastructure priorities and timing
- Every TOD area is unique - understand stakeholders, priorities, and regional needs
- Consider the dynamic between building tax-exempt housing vs. generating revenues to facilitate the construction of such housing
- Understand the political appetite to issue state G.O. Bonds and appropriations, and/or seek other alternatives
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