

Hawai'i Needs Infrastructure for Housing

The State and Counties already invest in infrastructure, but current resources are not enough to meet affordable housing needs – especially for infrastructure that serves an entire community rather than a single development project.

Hawai'i has an affordable housing crisis and needs up to an estimated

50,156

new homes statewide by

2025

Source: 2019 Hawai'i Housing Planning Study



CHALLENGES

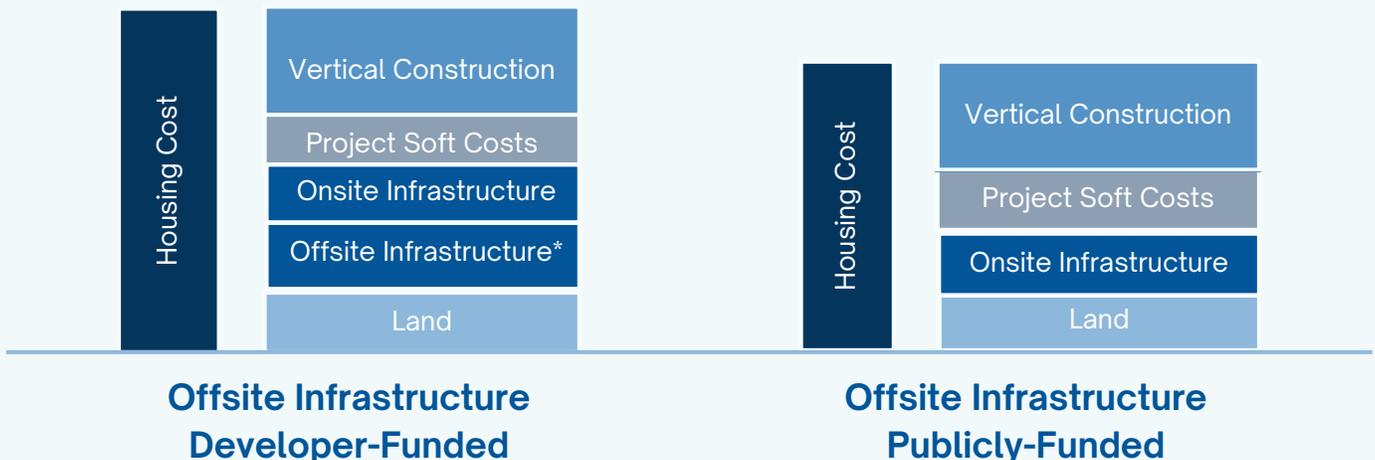
BEFORE HOUSING CAN BE BUILT

Infrastructure – like water, sewers, electricity, and complete streets – needs to be in place. Infrastructure delays and costs hold up housing construction and increase the cost of building new homes – especially affordable ones.

WHY SHOULD GOVERNMENT STEP UP INVESTMENT IN INFRASTRUCTURE?

The public sector is better suited to take on regional infrastructure projects due to its larger scale, access to lower-cost capital, and economies of scale from the coordination of projects within a region. This can result in more efficient and cost-effective infrastructure development.

Public Investment in Area-Wide Infrastructure that Serves Multiple Projects Reduces the Cost of Housing Production



* cost can delay or make a project infeasible

LĪHU‘E TOWN CORE

195 acres
 775 potential new homes
\$8.0M unfunded infrastructure needs*
\$351M in potential new development*

KA‘AHUMANU AVENUE COMMUNITY CORRIDOR

2,029 acres
 2,200 potential new homes
\$7.3M unfunded infrastructure needs*
\$170M in potential new development*

IWILEI-KAPĀLAMA

552 acres
 27,400 potential new homes
\$667M unfunded infrastructure needs*
\$5.2B in potential new development*

ANEKEOHOKALO LE HIGHWAY CORRIDOR

13,090 acres
 4,000 homes
\$462M unfunded infrastructure needs*
\$1.7B in potential new development*

TOD Housing Opportunities and Challenges Across Hawai‘i

for TOD Pilot Areas

In 2022, the State launched a **study of infrastructure financing tools and cost recovery mechanisms** for State infrastructure investments in four TOD Pilot Areas across Hawai‘i with strong potential for new housing close to jobs and transit.

STUDY FINDINGS

32.4K potential new homes

\$7.4B development value

BUT

\$1.1B in unfunded infrastructure needs

Unlocking housing and mixed-use development in these areas and others like them will:

- Create new affordable places to live close to jobs and transit, which will enhance workforce retention
- Create new jobs and customers (through infrastructure construction, new retail and office)
- Expand tax base for public services

But Hawai‘i needs additional tools to fund the infrastructure needed for housing.

The **TOD Infrastructure Finance Strategy** recommends

10 actions to fill the funding gap.



* Refer to the Strategy for info on the methodology by scanning the QR code on the next page or use weblink on the last page

Recommendations to Increase Infrastructure Funding

The Strategy recommends continued State and County collaboration to fund regional infrastructure. These new actions support this by creating more regular, dedicated funding for infrastructure and facilitate construction of affordable homes and mixed-use development.

COUNTY-LEVEL ACTIONS

- 6 Encourage the formation of **Community Facilities Districts**
- 7 Promote the creation of **Business Improvement Districts**
- 8 Consider implementing streamlined **impact fee programs**
- 9 Assess a **modification of the City and County of Honolulu’s property tax exemption** for market units in mix-income rental projects
- 10 Use **progressive property tax** in all counties

STATE-LEVEL ACTIONS

- 1 Expand infrastructure funding capacity of **state conveyance tax**
- 2 Expand infrastructure funding capacity of **tourism-related taxes**
- 3 Authorize **tax increment financing**
- 4 Create a **TOD Infrastructure Revolving Fund**
- 5 Expand infrastructure funding capacity of **state general excise tax surcharge**

To read the *TOD Infrastructure Finance and Delivery Strategy*, scan the QR code below or use the link to the OPSD website on the last page.



Let’s explore **three of the recommendations** in a little more detail



ACTION 3

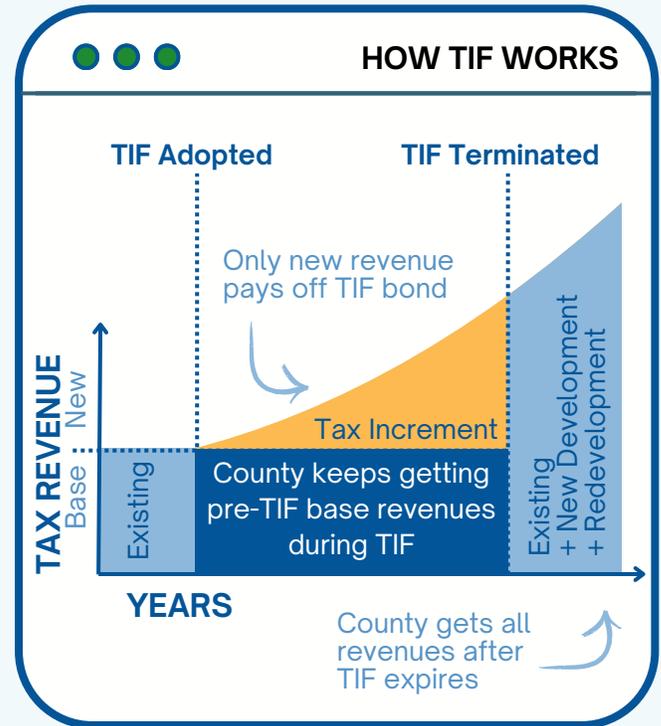
Support Infrastructure with Tax Increment Financing

To use **Tax Increment Financing (TIF)**, a local government designates a special area (a “TIF District”) to **fund public improvements**, using a portion of the real property tax in that area. Those public improvements **catalyze new real estate development, including housing**, that expands the real property tax base and **generates additional revenues** to fund the public improvements and/or repay any upfront financing, including potential TIF Bonds.

TIF is a way for local government to **capitalize new development value to build and sustain public improvements** in a TIF District. **TIF is not a new tax**, but rather an instrument to fund public improvements that will **generate additional development** and expand the real property tax base.

ADVANTAGES OF TIF

- TIF guarantees revenue for public improvement projects, reducing project risk and delays.
- TIF does not pose a risk to County general funds – only the tax increment from the TIF District is dedicated to repaying TIF bonds.
- If a TIF law allows it, incremental State tax generated in a TIF District can support public improvements.
- Taps into new development value created by improvements to finance improvements in the district.



USING TIF IN HAWAII

Legislation is needed for a ballot measure for a State constitutional amendment to **explicitly authorize County use of TIF and to exclude TIF from County debt limits**. Voters will need to approve the constitutional amendment to enable the counties to adopt and use TIF.

Additional measures that can make TIF more effective and attractive:

- Allow State contribution of some of its **incremental revenues** generated in TIF Districts.
- Require “**but-for**” analysis to limit TIF only to areas that wouldn’t develop without TIF financing.
- Require **TIF revenue contribution** to the cost of new public services in the district.

ACTION 6

Support Infrastructure with Community Facilities Districts

WHAT IS A COMMUNITY FACILITIES DISTRICT (CFD)?

A CFD is a special district where a majority of property owners agree to pay ongoing special assessments to fund specific infrastructure or public services or infrastructure benefiting the district.



CFDS IN HAWAI'I

KALOKO HEIGHTS CFD (HAWAI'I)

Funded sewer improvements.



KUKUI'ULA CFD (KAUA'I)

Funded transportation and water improvements.



WHY USE CFDS?

- 1 Can fund most infrastructure projects
- 2 Revenue starts right away and is predictable
- 3 Can support bonds to finance housing infrastructure

USING CFD AND TIF TOGETHER

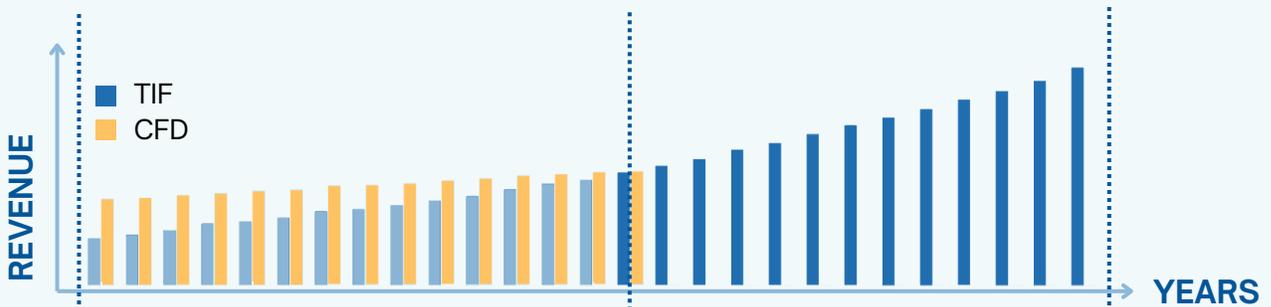
TIF Districts can take time to generate revenues strong enough to support a bond issuance. Overlaying CFD and TIF can help raise short-term financing while development and TIF revenues ramp up.

San Francisco's Salesforce Transit Center used this approach. CFD special assessments will repay \$260M in interim financing, and TIF revenues will repay a \$171M TIFIA loan from the federal government.

CFD Begins

CFD Ends + TIF Begins

TIF Ends



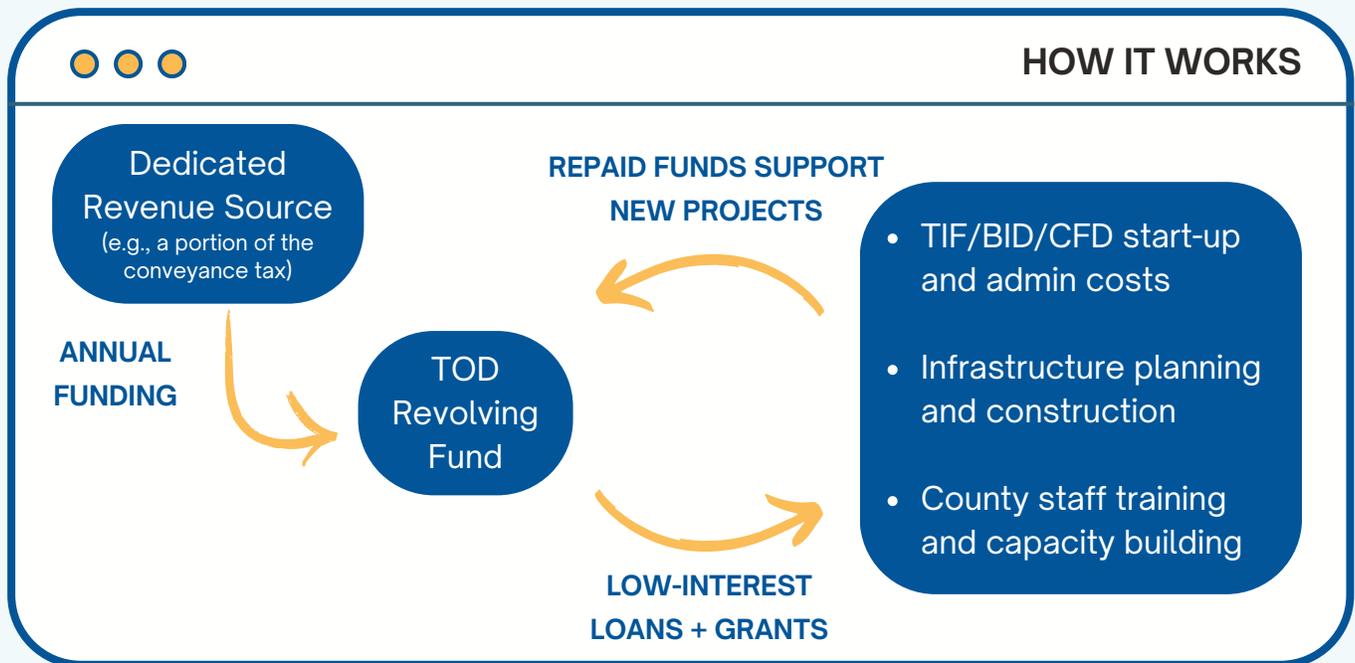
ACTIONS 1 AND 4

A Dedicated Funding Source for Housing & TOD Infrastructure

The Transit-Oriented Development (TOD) Infrastructure Fund is a proposal to establish a statewide revolving fund with one or more regular funding sources, such as the State conveyance tax, dedicated to financing infrastructure that allows housing and development near bus and rail stations.

The State has various funds for infrastructure projects that support housing construction.

But none of the existing housing infrastructure funds have a long-term, predictable revenue source – a key ingredient for infrastructure projects, which are long-term by nature and require large upfront capital investment.



Office of Planning and Sustainable Development

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The *TOD Infrastructure Finance and Delivery Strategy*, December 2023, is available at https://files.hawaii.gov/dbedt/op/lud/Reports/TOD_InfraFin_Strategy_20231221.pdf

It is the final report prepared for the “TOD Infrastructure Finance and Delivery Strategies for TOD Pilot Areas” study, funded by the State Legislature through a budget proviso in Act 88, Session Laws of Hawai‘i 2021. The study was conducted in collaboration with the State and County agencies of the Hawai‘i Interagency Council for Transit-Oriented Development.

For more information about the Strategy, please contact OPSD Land Use Division, dbedt.op.lud@hawaii.gov or (808) 587-2842.

Project Partners

