STATE OF HAWAIʻI
OFFICE OF PLANNING
& SUSTAINABLE DEVELOPMENT

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Statement of
MARY ALICE EVANS, Interim Director

before the
SENATE COMMITTEE ON WAYS AND MEANS
Thursday, February 22, 2024
10:05 AM
State Capitol, Conference Room 211

in consideration of
BILL NO SB3008, SD1
PROPOSING AMENDMENTS TO ARTICLE VII, SECTIONS 12 AND 13, OF THE HAWAII CONSTITUTION TO EXPRESSLY PROVIDE THAT THE LEGISLATURE MAY AUTHORIZE THE COUNTIES TO ISSUE TAX INCREMENT BONDS AND TO EXCLUDE TAX INCREMENT BONDS FROM DETERMINATIONS OF THE FUNDED DEBT OF THE COUNTIES.

Chair Dela Cruz, Vice Chair Moriwaki, and Members of the Senate Committee on Ways and Means:

The Office of Planning and Sustainable Development (OPSD) **strongly supports** with comments SB3008, SD1, which proposes amendments to the Constitution of the State of Hawaii to expressly provide that the legislature may authorize political subdivisions, such as counties, to issue tax increment bonds and to exclude tax increment bonds from determinations of the funded debt of the political subdivisions.

We note that this bill is similar to SB3051, an administration bill, with some minor differences in the definitions, the timing of assessed value, the tax increment bond exclusions, and the proposed ballot question. Although we fully support this version, we suggest two clarifications in Definition Section 12.10.:

1) Page 4, lines 16-18: Add and strike the bolded text “the principal of and interest on which are **in fact** payable from and secured ~~**solely**~~ by the amount of real property taxes levied….”.
2) Page 5, lines 1-3: Add and strike the bolded text “the assessed value of the taxable real property in the tax increment district ~~**during the year of**~~ **in the fiscal year prior to the** creation of that tax increment district.”

Similar edits should be made to the Debt Limit: Exclusions Section 13.10., Page 15, lines 1-10.

Tax increment financing (TIF) is a useful tool to help finance regional public infrastructure to facilitate transit-oriented development on state and private lands. It allows a portion of property taxes in excess of a base assessed value to be dedicated to finance costs of a project through issuance of bonds. Per the Legislature's direction and funding in Act 88, SLH 2021, Sec. 39, OPSD recently completed the *TOD Infrastructure Finance and Delivery Strategy*, which showed that TIF could help fund infrastructure for housing development. (See https://files.hawaii.gov/dbedt/op/lud/Reports/TOD_InfraFin_Strategy_20231221.pdf).

Please also see the attached summary handout of the Infrastructure Finance Strategy.

Allowing the use of TIF is supported by state and county agencies and developers. Thank you for the opportunity to testify on this measure.

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

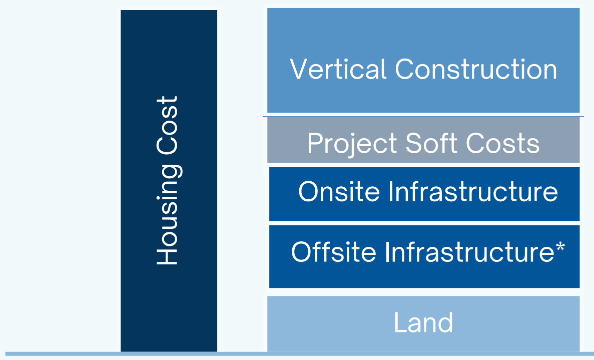
BEFORE HOUSING CAN BE BUILT

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?

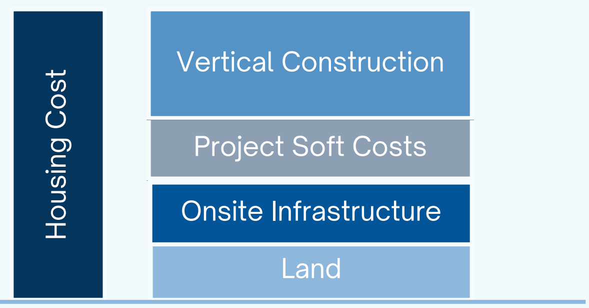
The public sector is better suited to take on regional infrastructure projects due to its larger scale, access to lower-cost capital, and economies of scale from the coordination of projects within a region. This can result in more efficient and cost-effective infrastructure development.

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



Offsite Infrastructure Developer-Funded

** cost can delay or make a project infeasible*



Offsite Infrastructure Publicly-Funded

TOD Housing Opportunities and Challenges Across Hawaiʻi

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 Hawaiʻi with strong potential for new housing close to jobs and transit.

LĪHUʻE TOWN CORE

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

IWILEI-KAPĀLAMA

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

KAʻAHUMANU AVENUE COMMUNITY CORRIDOR

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

ANE KEOHOKALOLE HIGHWAY CORRIDOR

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

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 Hawaiʻi 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.

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**

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

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.

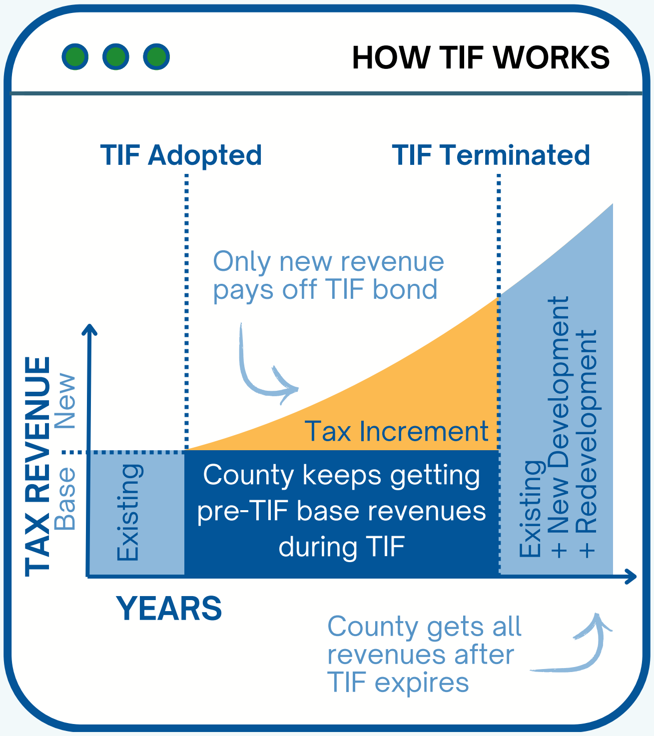
Let's explore **three of the recommendations** in a little more detail

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 HAWAIʻI

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

CFDS IN HAWAIʻI

KALOKO HEIGHTS CFD (HAWAIʻI)

Funded sewer improvements.

KUKUIʻULA CFD (KAUAʻI)

Funded transportation and water improvements.

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.

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.

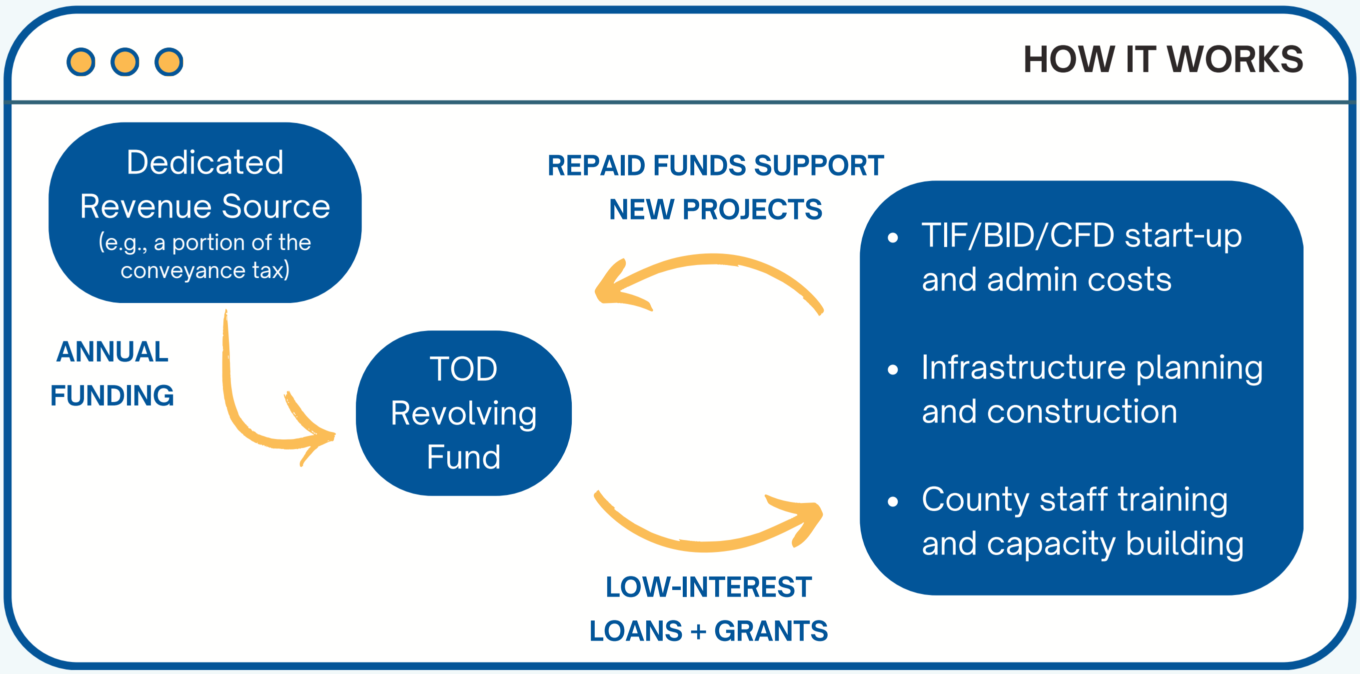
ACTIONS 1 AND 4

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

P.O. Box 2359, Honolulu, Hawaii 96804-2359

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 Hawaiʻi 2021. The study was conducted in collaboration with the State and County agencies of the Hawaiʻi 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

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Dane K. Wicker
DBEDT Deputy Director

Brennon T. Morioka
Chair, Stadium Authority

Ryan G. Andrews
Stadium Manager

Chris J. Sadayasu
Deputy Stadium Manager

ALOHA STADIUM

An Agency of the State of Hawaii

February 22, 2024

TESTIMONY
OF
RYAN G. ANDREWS, STADIUM MANAGER
STADIUM AUTHORITY
DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT, AND TOURISM
Before the

SENATE COMMITTEE ON
WAYS AND MEANS

February 22, 10:05 A.M.
State Capitol, Room 211

In consideration of
S.B. 3008, SD1
RELATING TO PROPOSING AMENDMENTS TO ARTICLE VII, SECTIONS 12 AND 13, OF THE HAWAII CONSTITUTION TO EXPRESSLY PROVIDE THAT THE LEGISLATURE MAY AUTHORIZE THE COUNTIES TO ISSUE TAX INCREMENT BONDS AND TO EXCLUDE TAX INCREMENT BONDS FROM DETERMINATIONS OF THE FUNDED DEBT OF THE COUNTIES

Chair Dela Cruz, Vice Chair Moriwaki, and members of the Committee on Ways and Means.

The Stadium Authority supports Senate Bill 3008, which proposes amendments to the State Constitution to expressly provide that the Legislature may authorize the counties to issue tax increment bonds; and exclude tax increment bonds in calculating the debt limit of the counties. While tax increment bonds are authorized under HRS Chapter 46, counties have been reluctant to use tax increment bonds as a financing tool because of uncertainty in the allowance of its use under the State Constitution. Passing this Bill would allow for the constitutional cloud to be lifted should the ballot question be voted through by the electorate in the upcoming election.

Tax increment financing (TIF) has been widely used in other states to capture the increased property values in dense, mixed-use transit-oriented development. The Stadium Authority's New Aloha Stadium Entertainment District (NASED) Project is a prime example of a district that would benefit from TIF revenue bonds which would fund the public infrastructure improvements to facilitate development within the NASED Project.

Thank you for the opportunity to testify.

HAWAIʻI INTERAGENCY COUNCIL FOR TRANSIT-ORIENTED DEVELOPMENT

DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

Mailing Address: P.O. Box 2359, Honolulu, Hawaiʻi 96804
Website: http://planning.hawaii.gov/state-tod/

Telephone: (808) 587-2846
Fax: (808) 587-2824

Statement of
MARY ALICE EVANS AND DEAN MINAKAMI
Co-chairs
Hawaiʻi Interagency Council for Transit-Oriented Development

before the
SENATE COMMITTEE ON WAYS AND MEANS
Thursday, February 22, 2022, 10:05 AM
State Capitol, Conference Room 211

in consideration of
SB 3008, SD1
PROPOSING AMENDMENTS TO ARTICLE VII, SECTIONS 12 AND 13, OF THE HAWAII CONSTITUTION TO EXPRESSLY PROVIDE THAT THE LEGISLATURE MAY AUTHORIZE THE COUNTIES TO ISSUE TAX INCREMENT BONDS AND TO EXCLUDE TAX INCREMENT BONDS FROM DETERMINATIONS OF THE FUNDED DEBT OF THE COUNTIES.

Chair Dela Cruz, Vice Chair Moriwaki, and Members of the Senate Committee on Ways and Means:

The Hawaiʻi Interagency Council for Transit-Oriented Development (TOD Council) **strongly supports** SB 3008, SD1. The TOD Council is comprised of 25 members representing state agencies, the counties, the State Senate and House of Representatives, the Honolulu office of the U.S. Department of Housing and Urban Development, and affordable housing, business, and development interest groups. The TOD Council is charged with coordinating and facilitating state agency TOD planning and facilitating consultation and collaboration between the State and the counties in support of State and county TOD and Smart Growth initiatives.

Tax increment financing (TIF) is a useful tool to help finance regional public infrastructure to facilitate transit-oriented development on state and private lands. It allows a portion of property taxes in excess of a base assessed value to be dedicated to finance costs of a project through issuance of bonds. Per the Legislature's direction and funding in Act 88, SLH 2021, Sec. 39, the Office of Planning and Sustainable Development recently completed the *TOD Infrastructure Finance and Delivery Strategy*, which showed that TIF could help fund infrastructure for housing development.
(See https://files.hawaii.gov/dbedt/op/lud/Reports/TOD_InfraFin_Strategy_20231221.pdf).

Thank you for the opportunity to testify on this measure.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 305 Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: CONSTITUTIONAL AMENDMENT; Tax Increment Bonds; Debt Limit; Counties

BILL NUMBER: SB 3008 SD 1

INTRODUCED BY: Senate Committee on Judiciary

EXECUTIVE SUMMARY: Proposes amendments to the Constitution of the State of Hawaiʻi to expressly provide that the Legislature may authorize political subdivisions, such as counties, to issue tax increment bonds, and to exclude tax increment bonds in calculating the debt limit of the political subdivisions.

SYNOPSIS: Amends Article VII, Section 12 of the Constitution to authorize the use of "tax increment bonds" by adding the definition of "tax increment bonds" as all bonds, the principal of and interest on which are payable from and secured solely by the amount of real property taxes levied and collected by a political subdivision, such as a county, on the difference between the assessed value of the taxable real property located within the boundaries of a tax increment district established by a political subdivision in a given year and the assessed value of the taxable real property in the tax increment district during the year of creation of that tax increment district..

Amends Article VII, Section 13 of the Constitution to exclude tax increment bonds from the debt limit, but only to the extent that the principal of and interest on the bonds are in fact paid from and secured solely by the amount of real property taxes levied and collected by a political subdivision, such as a county, on the difference between the assessed value of the taxable real property located within the boundaries of a tax increment district established by a political subdivision in a given year and the assessed value of the taxable real property in the tax increment district during the year of creation of that tax increment district.

EFFECTIVE DATE: Upon approval by the electorate.

STAFF COMMENTS : The proposed measure would allow the counties to issue tax increment bonds and utilize the concept of tax increment financing as another means of financing capital improvements. The concept of tax increment financing is based on increased property tax revenue generated from rising property tax assessments which result from the improvements. Under a tax increment financing plan, a specific geographic area would be designated as a tax increment district for which tax increment bonds would be sold to cover capital improvement project costs within that district.

Upon the designation of a tax increment district an "assessment base" is established, based on the total assessed value of taxable real property in a tax increment district at that time. A "tax increment," which is the amount by which the current valuation of the real property exceeds the assessment base, is then determined. The revenues derived from the assessment base would be paid into the county's general fund while the revenues derived from the tax increment would be deposited into the tax increment fund. In addition to the revenues derived from the determination of the tax increment, the proceeds of tax increment bonds are also to be deposited into the tax increment fund. The total revenues in the tax increment fund are then be used to finance capital improvements including debt repayment made to the tax increment district which, in turn, will result in increased property valuations due to renovation and increased capital improvements within the designated district.

While this concept provides another means for the financing of capital improvements, caution should be exercised to ensure that the amount of revenues generated within a tax increment district will be enough to cover the debt service of the tax increment bonds issued. Provisions should be made to ensure that this method of financing is not abused as it has been in other states. Specifically, it should be provided that once a tax increment financing district has been designated and the project costs estimated, such districts may not be enlarged nor shall expenditures exceed projections to include purposes other than originally authorized without specific local government approval.

In other words, in designating such districts, certification of assessment values should be done to ensure that valuations of properties within the tax increment district will increase sufficiently to generate enough revenues to repay the cost of the bonds sold. Conversely, specific provisions should be made to ensure that any excess revenues are returned to the county general fund.

The measure also provides that tax increment bonds shall be excluded from the determination of funded debt of the counties for purposes of the constitutional spending ceiling. It is questionable why tax increment bonds should be treated differently from any other debt of the counties.

As the Hawaii Supreme Court explained in *Convention Center Authority v. Anzai,* 78 Haw. 157, 890 P.2d 1197 (1995), Hawaii's Constitution has had some form of debt limitation in place essentially from its inception. Under the Organic Act, the debt limit was set at ten percent of the assessed value of real property. The limit was subsequently increased to fifteen percent at the 1950 Constitutional Convention. The present structure of the debt limit and its exceptions was adopted by the 1968 Constitutional Convention, where the delegates were particularly wary of the implications of pledging the full faith and credit of the state behind an undertaking that was not "self-sustaining" or whose revenues, and/or the user taxes derived from the undertaking, could not cover the debt service charges. That is why the present constitutional provisions provide for the excludability of reimbursable general obligation bonds from the debt limit to the extent that "reimbursements are in fact made from the net revenue, or net user tax receipts, or combination of both, as determined for the immediately preceding fiscal year." Haw. Const. art. VII, § 13(6). In other words, the amounts that are not directly reimbursed to the general fund by revenue and/or user taxes are not excludable from the debt limit. This compromise position carefully balances the competing interests of flexibility and security.

We question the wisdom of writing an exception into our constitutional debt limit safeguards for debt that is supposed to be paid back by increased property tax revenues from development that has yet to occur. If the development does not deliver as advertised, government remains on the hook to repay the bonds, meaning that all of us suffer.

Digested: 2/20/2024

Testimony of Move Oahu Forward
Hearing on SB 3008
February 22, 2024, at 10:05 a.m.

Senator Donovan Dela Cruz, Chair
Senator Sharon Moriwaki, Vice Chair
Members of the Senate Ways and Means Committee

SB 3008– PROPOSING A CONSTITUTIONAL AMENDMENT TO AUTHORIZE THE COUNTIES TO ISSUE TAX INCREMENT BONDS
Hearing date – February 22, 2024, at 10:05 AM

Chair Dela Cruz, Vice Chair Moriwaki and members of the Committee,

Move Oahu Forward (MOF) respectfully submits testimony in **SUPPORT** of **SB 3008– PROPOSING A CONSTITUTIONAL AMENDMENT TO AUTHORIZE THE COUNTIES TO ISSUE TAX INCREMENT BONDS**. MOF is a non-profit established in 2012 to support rail transit and public transportation options. With the Skyline running, MOF is pivoting to expand its focus to the promise of rail and Transit Oriented Communities (TOC). Our focus will be in the Kalihi corridor.

SB 3008 proposes amendments to the Hawaii State Constitution, allowing the Legislature to authorize the counties to issue tax increment bonds, and to exclude the tax increment bonds from the calculations of the counties' debt limits. Tax Increment Financing (TIF) is a proven financial tool to make infrastructure investments to support affordable housing developments which in turn, foster economic growth.

The State of Hawaii commissioned the TOD Infrastructure Financing Study (June '22 – Dec '23), and made the following recommendations:

a. Existing County and State infrastructure funding is not sufficient to meet the needs of Hawaii's affordable housing crisis.
b. Tax Increment Financing provides the highest financing capacity and a greater eligibility flexibility.

MOF wholeheartedly supports the addition of TIF into our toolbox. It provides the highest financing capacity for projects in specific districts, Transit Oriented Communities. This will help our communities realize the promise of rail in an equitable and more expedient manner.

Thank you for the opportunity to provide testimony in support of SB 3008.

Aloha,
Jennifer Sabas
Executive Director
Move Oahu Forward

NAIOP
COMMERCIAL REAL ESTATE DEVELOPMENT ASSOCIATION
HAWAII CHAPTER

LATE

February 21, 2024

Senator Donovan Dela Cruz, Chair
Senator Sharon Moriwaki, Vice Chair
Members of the Senate Ways and Means Committee

RE: **SB 3008– PROPOSING A CONSTITUIONAL AMENDMENT TO AUTHORIZE THE COUNTIES TO ISSUE TAX INCREMENT BONDS**
Hearing date – February 22, 2024 at 10:05 AM

Aloha Chair Dela Cruz, Vice Chair Moriwaki, and members of the committee,

Thank you for allowing NAIOP Hawaii to submit testimony in **SUPPORT** of **SB 3008– PROPOSING A CONSTITUIONAL AMENDMENT TO AUTHORIZE THE COUNTIES TO ISSUE TAX INCREMENT BONDS**. NAIOP Hawaii is the Hawaii chapter of the nation's leading organization for office, industrial, retail, residential and mixed-use real estate. NAIOP Hawaii has over 200 members in the State including local developers, owners, investors, asset managers, lenders, and other professionals.

SB 3008 proposes amendments to the Constitution of the State of Hawai'i to expressly provide that the Legislature may authorize political subdivisions, such as counties, to issue tax increment bonds, and to exclude tax increment bonds in calculating the debt limit of the political subdivisions.

NAIOP Hawaii supports SB 3008 which will explicitly enable the Legislature to authorize counties to issue tax increment bonds. The proposed amendments allow for the utilization of Tax Increment Financing (TIF), a proven financial tool for supporting district infrastructure and fostering economic growth. Listed below are a few notable facts about TIF:

(i) The Council of Development and Finance Agencies (CDFA) is a leading national association representing hundreds of public, private, and non-profit development entities. According to the CFDA, TIF is the most popular form of public finance today for economic development projects.

(ii) TIF began in 1952 in California and has spread throughout the county. Today, 48 States and the district of Columbia have accepted TIF through TIF enabling legislation, excluding only Arizona and Hawaii.

(iii) The State of Hawaii commissioned the TOD Infrastructure Financing Study, a four-phase study which took eighteen months to complete (June '22 – Dec '23) and included input from a multitude of consultants, State and City offices, and stakeholders. According to the Study:

a. Existing County and State funding for infrastructure is not sufficient to meet the needs of Hawaii's long-standing affordable housing crisis.

i. Counties are already investing in infrastructure via existing means such as CIP; however, existing sources, even in good budget years, are 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.

b. Tax Increment Financing provides the highest financing capacity out of all alternative financing mechanisms, including Community Facilities, One-Time Fees, General Excise Tax Surcharges, Transient Accommodation Taxes Surcharge, and the like.

c. Tax Increment Financing, as a value capture tool, provides greater flexibility in eligibility, as opposed to traditional public funding such as GO Bonds, CIP, State grants, or Federal programs).

(iv) Tax Increment Financing could potentially be exceptionally useful in the rebuilding of Lahaina. Given the loss of improvements to wildfire, it is expected that the overall assessed value of Lahaina will be re-evaluated to a significantly lower figure. This adjustment is anticipated to generate a greater potential incremental rise in real property tax revenue, resulting in a comparatively higher TIF capacity.

Lastly, please note the clarifications outlined in Exhibit A. These are the most common misconceptions about TIF, which have been dispelled in the TOD Infrastructure Study as well as through feedback received from the CDFA, consultants, and other State TIF administrators who have successfully utilized this financing mechanism for decades.

Accordingly, NAIOP Hawaii greatly supports the utilization of TIF to provide the highest financing capacity for projects in specific districts across the State. Empowering counties with the opportunity to issue tax increment bonds will enhance their financial capacity to address the essential infrastructure requirements that are critical to improving our local housing crisis.

Thank you for the opportunity to provide testimony in support of SB 3008.

Mahalo for your consideration,

Reyn Tanaka, President
NAIOP Hawaii

EXHIBIT A

Tax Increment Financing - Common Misconceptions

☒ Misconception	💡 Clarification
Tax Increment Financing (TIF) will take away funding for City services and the gap in City revenue funding will necessitate compensation from taxpayers outside of the designated district. As the district continues to grow, so will the need for outside taxpayers to cover the cost of government.	If a significant portion of the geographic zone of a TIF district includes a large-scale master plan, then the taking of RPT revenue from City services is not a concern as you cannot take away the majority of incremental RPT revenue from City Services if the majority of those revenues do not exist without the funding of district infrastructure in the first place. The majority of the incremental increase in RPT is driven by higher density, retail amenities and public amenities that come with new master plan developments. Not general inflation. Additionally, a percentage allocation of the incremental RPT can be designated to continue to fund City services to address the increasing cost of government as it relates to the TIF zone.

☒ Misconception	💡 Clarification
Tax Increment Financing (TIF) will take away funding for City services and the gap in City revenue funding will necessitate compensation from taxpayers outside of the designated district. As the district continues to grow, so will the need for outside taxpayers to cover the cost of government.	Provide for a "net fiscal impact finding" requirement for the use of TIF into 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.

☒ Misconception

Hawaii does not need another infrastructure financing mechanism as Counties are already able to utilize GO Bonds.

Clarification

As outlined in the TOD Infrastructure Financing Study:

- Existing County and State funding mechanisms, including GO Bonds, fall short in meeting the infrastructure requirements for housing production goals. Additional tools are needed to supplement current resources.
- 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 is more politically palatable than County GO bonds, which are supported generally by all County taxpayers.

☒ Misconception

TIF will result in negative impacts to County government bond ratings.

Infrastructure financing and delivery is hobbled by a lack of staffing. Public entities lack the capacity to facilitate the creation or management of new financing mechanisms.

Clarification

Included in the Governor's Bill Package is language which excludes TIF bonds from County debt limits.

HRS Chapter 46 defines "imputed administrative costs" as an eligible expenditure in a TIF plan. In other words, tax increment bond funds can be used to pay for both staffing costs and municipal finance advisors to administer a tax increment district.

Additionally, in October '23, OPSD and Gov's Office of Housing applied for HUD funding of infrastructure initiatives, which includes staffing for infrastructure projects.

TO: Members of the Committee on Ways and Means

FROM: Natalie Iwasa, CPA, CFE
808-395-3233

HEARING: 10:05 a.m. Thursday, February 22, 2024

SUBJECT: SB3008, SD1, Proposed Constitutional Amendment to Authorize Counties to Issue Tax Increment Bonds – **OPPOSED**

Aloha Chair Dela Cruz and Committee Members,

Thank you for allowing the opportunity to provide testimony on SB3008, SD1, which proposes a constitutional amendment to authorize counties to issue tax increment bonds and to exclude such bonds from county debt limits. I oppose this bill.

Tax increment bonds are used to fund capital improvements, which then theoretically result in increased assessed values of the underlying properties. The increased values result in higher taxes that are used to pay off the bonds.

What happens if the increased assessed values and resulting taxes fall short of projections?

Tax increment bonds would provide incentive for increasing assessed values or rates (or both), perhaps beyond amounts that would otherwise have been determined.

The other part of the bill would exclude the debt from county debt limits. I see no good reason to exclude tax increment bonds from county debt limits.

Please vote "no" on SB3008, SD1.