



**DEPARTMENT OF BUSINESS,
ECONOMIC DEVELOPMENT & TOURISM**

DAVID Y. IGE
GOVERNOR

MIKE MCCARTNEY
DIRECTOR

CHUNG I. CHANG
DEPUTY DIRECTOR

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Statement of
MIKE MCCARTNEY
Director

Department of Business, Economic Development, and Tourism
before the
HOUSE COMMITTEE ON FINANCE

Tuesday, March 1, 2022
11:00 AM

State Capitol, Conference Room 308 and Videoconferencing

In consideration of
HOUSE BILL 2085

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.

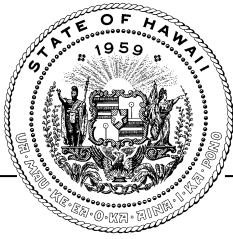
Chair Luke, Vice Chair Yamashita, and members of the Committee.

The Department of Business, Economic Development and Tourism (DBEDT) **supports** Administration Bill, House Bill 2085 which amends the Constitution of the State of Hawaii to expressly provide that the legislature may authorize the counties to issue tax increment bonds and to exclude tax increment bonds in calculating the debt limit of the political subdivisions.

The allowance for counties to use tax increment bonds as a value capture financing tool has been hampered by the uncertainty in the allowance of its use in the State Constitution. The constitutional cloud would be lifted by the passage of this bill, which includes a ballot question to be posed to the electorate in the upcoming election.

Tax Increment Financing is well-used in other states to capture the increased property valuations arising from increased density in transit-oriented developments which are a key component to economic development and revitalization. Tax increment bonds could be used to fund costly infrastructure upgrades often needed to develop and redevelop higher density mixed-use projects and affordable housing.

Thank you for the opportunity to testify.



**STATE OF HAWAII
OFFICE OF PLANNING
& SUSTAINABLE DEVELOPMENT**

DAVID Y. IGE
GOVERNOR

MARY ALICE EVANS
DIRECTOR

235 South Beretania Street, 6th Floor, Honolulu, Hawaii 96813
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Statement of
MARY ALICE EVANS
Director, Office of Planning and Sustainable Development
before the
HOUSE COMMITTEE ON FINANCE
Tuesday, March 1, 2022
11:00 AM
State Capitol, Conference Room 308

in consideration of
HB 2085

**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 Luke, Vice Chair Yamashita, and Members of the Committee on Finance.

The Office of Planning and Sustainable Development (OPSD) **strongly supports** Administration bill, HB 2085. This measure proposes amendments to article VII, sections 12 and 13 of the Hawaii State Constitution to expressly provide that the legislature may authorize the counties to issue tax increment bonds and to exclude tax increment bonds in calculating the debt limit of the counties.

Tax increment financing is a method through which a portion of property taxes in excess of a base assessed value may be dedicated to finance costs of a project through the issuance of bonds. While HRS §46-103 permits a county council to provide for tax increment financing, and HRS §46-104(2) grants a county the power to issue tax increment bonds, tax increment bonds do not fit neatly within the types of bonds that counties may issue under Hawaii's Constitution. The measure will allow tax increment bonds to be issued by the counties without affecting the debt limit of the counties.

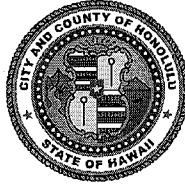
The constitutional cloud can be cleared should this bill pass and the constitutional amendment be approved in the general election in November 2022. This change could enable use of this method to finance costly infrastructure upgrades in smart growth and transit-oriented development (TOD) areas. Tax Increment Financing is a value capture financing tool which is successfully and widely used in other states. TOD enhances property values which can be captured for cost recovery of State costs for funding infrastructure improvements.

Thank you for this opportunity to testify.

DEPARTMENT OF PLANNING AND PERMITTING
CITY AND COUNTY OF HONOLULU

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RICK BLANGIARDI
MAYOR



DEAN UCHIDA
DIRECTOR
DAWN TAKEUCHI APUNA
DEPUTY DIRECTOR
EUGENE H. TAKAHASHI
DEPUTY DIRECTOR

March 1, 2022

The Honorable Sylvia Luke, Chair
and Members of the Committee on Finance
Hawaii House of Representatives
Hawaii State Capitol
415 South Beretania Street
Honolulu, Hawaii 96813

Dear Chair Luke and Committee Members:

**Subject: House Bill No. 2085
Relating to Tax Increment Bonds**

The Department of Planning and Permitting (DPP) **strongly supports** House Bill No. 2085, which proposes amendments to article VII, sections 12 and 13, of the Constitution of the State of Hawaii 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 political subdivisions

The City has been working to identify critical infrastructure investments to support transit-oriented development (TOD) on State, City, and private properties along the rail corridor. While we have identified several potential funding sources, tax increment financing (TIF) was not available to us. TIF is a method through which a portion of property taxes in excess of a base assessed value may be dedicated to finance costs of a project through the issuance of bonds. It has been used successfully throughout the U.S. to fund major infrastructure projects supporting TOD resulting in higher and better uses of property.

This Bill and the constitutional amendment it proposes would initiate another critically needed financing tool to accelerate TOD and housing development throughout the State.

Thank you for this opportunity to testify.

Very truly yours,

A handwritten signature in black ink, appearing to read "Dean Uchida".

Dean Uchida
Director

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 305

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: CONSTITUTIONAL AMENDMENT, Allows Counties to Issue Tax Increment Bonds and Exclude from County Debt Limit

BILL NUMBER: HB 2085, SB 3053

INTRODUCED BY: HB by SAIKI by request; SB by KOUCHI by request (Governor's Package)

EXECUTIVE SUMMARY: 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 in calculating the debt limit of the political subdivisions.

SYNOPSIS: Amends Article VII, Section 12 of the Constitution to add the definition of "tax increment bonds" as all bonds, the principal of and interest on which are payable from and secured solely by all real property taxes levied by a political subdivision, such as a county, on the assessed valuation of the real property in a tax increment district established by the political subdivision that is in excess of the assessed valuation of the real property for the fiscal year prior to the effective date specified by resolution of the political subdivision of the specified public works, public improvements or other actions by the political subdivision within the tax increment district.

Authorizes counties to issue tax increment bonds.

Amends Article VII, Section 13 of the Constitution to exclude from the debt limit tax increment bonds, but only to the extent that the principal of and interest on the bonds are in fact paid from the real property taxes levied by a political subdivision, such as a county, on the assessed valuation of the real property in a tax increment district established by the political subdivision that is in excess of the assessed valuation of the real property for the fiscal year prior to the effective date specified by resolution of the political subdivision of the specified public works, public improvements or other actions by the political subdivision within the tax increment district.

EFFECTIVE DATE: Upon compliance with article XVII, section 3, of the Constitution of the State of Hawaii.

STAFF COMMENTS: This is an Administration measure sponsored by DBEDT and designated BED-09 (22).

The proposed measure would allow each of 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: 2/15/2022



February 28, 2022

Representative Sylvia Luke, Chair
Representative Kyle T. Yamashita, Vice Chair
Members of the House Committee on Finance
Thirty-First Legislature, Regular Session of 2022

RE: **HB 2085, HD1 – 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**

Hearing Date: March 1, 2022 at 11:00 a.m.

Aloha Chair Luke and Members of the House Committee on Finance,

Mahalo for the opportunity to submit testimony on behalf of D.R. Horton Hawaii LLC (“D.R. Horton”) in **SUPPORT** of HB 2085. D.R. Horton is one of Hawaii’s largest home builders and has been providing affordable housing and first-time buyer homes for Hawaii’s families throughout Oahu for nearly fifty years. D.R. Horton is currently under construction on its Ho’opili project in East Kapolei, a master planned community with more than 11,000 homes including affordable for sale and affordable rental housing.

D.R. Horton is in full support of the state's efforts to reduce the cost of housing for all levels in Hawaii. Infrastructure is a requisite to housing, without infrastructure housing does not get built. Residential infrastructure requirements typically involve both offsite and onsite systems. Examples of offsite infrastructure are regional sewer system improvements, potable water storage and transmission improvements and National Pollutant Discharge Elimination Systems (NPDES) storm water quality drainage improvements. Examples of onsite infrastructure are roadways, underground wet utilities (localized water, sewer, and drainage piping) and dry utilities (localized electrical power and telecommunication cabling). All these offsite and onsite infrastructure requirements must be planned, designed and constructed prior to the first homes being built and occupied. Because of this, infrastructure financing is an expensive upfront cost. A portion of this infrastructure cost is then allocated to the cost of each home akin to the cost of land allocated to each home. This allocation means that infrastructure financing will get paid back to the developer one house at a time. For projects built over multiple years, some up to 20 years such as Hoopili, this creates an extended period of return on infrastructure investment, thus increase holding costs ultimately borne by each home. This is contributing to the increased cost of housing to Hawaii’s families.

Oahu · Maui · Hawaii Island · Kauai

130 Merchant Street, Suite 112 · Honolulu, Hawaii 96813 · 808.521.5661

www.drhorton.com/hawaii

HB 2085 proposes a solution to this problem by providing a financing tool, which would allow counties to use future increases in real property taxes, that occur when residential homes are built, to finance the construction of requisite infrastructure. It will alleviate the need for homeowners to bear the burden of huge upfront infrastructure costs, creating a mechanism to pay these costs back through the increased property tax revenues. Additionally, this would reduce extended and expensive private infrastructure financing, freeing up capital to reinvest in more projects, ultimately accelerating much needed housing production.

Alternative mechanisms to financing much needed infrastructure is critical to solving Hawaii's housing shortfall. D.R. Horton strongly supports the passing of HB 2085. Mahalo for your time and consideration, it is much appreciated.

Sincerely,

Tracy Tonaki
City Manager



COMMERCIAL REAL ESTATE
DEVELOPMENT ASSOCIATION
HAWAII CHAPTER

March 1, 2022

Representative Sylvia Luke, Chair
Representative Kyle T. Yamashita, Vice Chair
Members of the House Committee on Finance

RE: **HB 2085, HD1 - 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**
Hearing date: March 1, 2022 at 11:00AM

Aloha Chair Luke, Vice Chair Yamashita and members of the committee,

Mahalo for the opportunity to submit testimony on behalf of NAIOP Hawaii in **SUPPORT** on HB 2085. NAIOP Hawaii is the local 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.

NAIOP Hawaii is in full support of the state's efforts to reduce the cost of housing for all levels in Hawaii. This measure is vital as residential infrastructure projects typically involve offsite systems such as sewer, water or drainage that must be constructed or improved prior to the first home being occupied. Since new homes are built and occupied over a period of multiple years, financing is maintained from before construction until the last unit is purchased.

Additionally, the infrastructure plan alone can often take 5-10 years and can face increase in prices during that time period. All of these factors result in substantial infrastructure costs that will be borne by the home buyer and substantially increases the cost of each home.

NAIOP Hawaii supports HB 2085 as the measure proposes a solution by providing a financing tool, which would allow counties to use future increases in real property taxes, that occur when residential homes are built, to finance the construction of infrastructure. Accordingly, this bill will reduce the need for homeowners to bear the burden of huge upfront costs and pay the costs back through the increased property tax revenues.

Representative Sylvia Luke, Chair
Representative Kyle T. Yamashita, Vice Chair
Members of the House Committee on Finance
March 1, 2022
Page 2

Ultimately, HB 2085 addresses a critical issue in the development of more affordable housing and critical infrastructure for Hawaii residents. NAIOP appreciates the Legislature's commitment to collaborating on this issue and look forward to working together.

Mahalo for your consideration,

A handwritten signature in black ink, appearing to read 'Jennifer Camp', with a stylized flourish at the end.

Jennifer Camp, President
NAIOP Hawaii

HB-2085

Submitted on: 2/27/2022 7:52:40 PM

Testimony for FIN on 3/1/2022 11:00:00 AM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
Gerard Silva	Individual	Oppose	No

Comments:

All Taxes are illegal!!!