

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

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Statement of  
**MARY ALICE EVANS, Interim Director**

before the  
**HOUSE COMMITTEE ON JUDICIARY AND HAWAIIAN AFFAIRS**

Friday, March 15, 2024

2:00 PM

State Capitol, Conference Room 325

in consideration of  
**BILL NO SB3008, SD2**  
**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 Tarnas, Vice Chair Takayama, and Members of the House Committee on Judiciary and Hawaiian Affairs:

The Office of Planning and Sustainable Development (OPSD) **strongly supports** SB3008, SD2, 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 counties.

We note that this bill is similar to SB3051, an administration bill, with some minor differences in the definitions. These differences were reconciled by the Senate Committee on Ways and Means in this SD2, which OPSD fully supports.

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](https://files.hawaii.gov/dbedt/op/lud/Reports/TOD_InfraFin_Strategy_20231221.pdf)).

Please also see the attached summary handout on 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

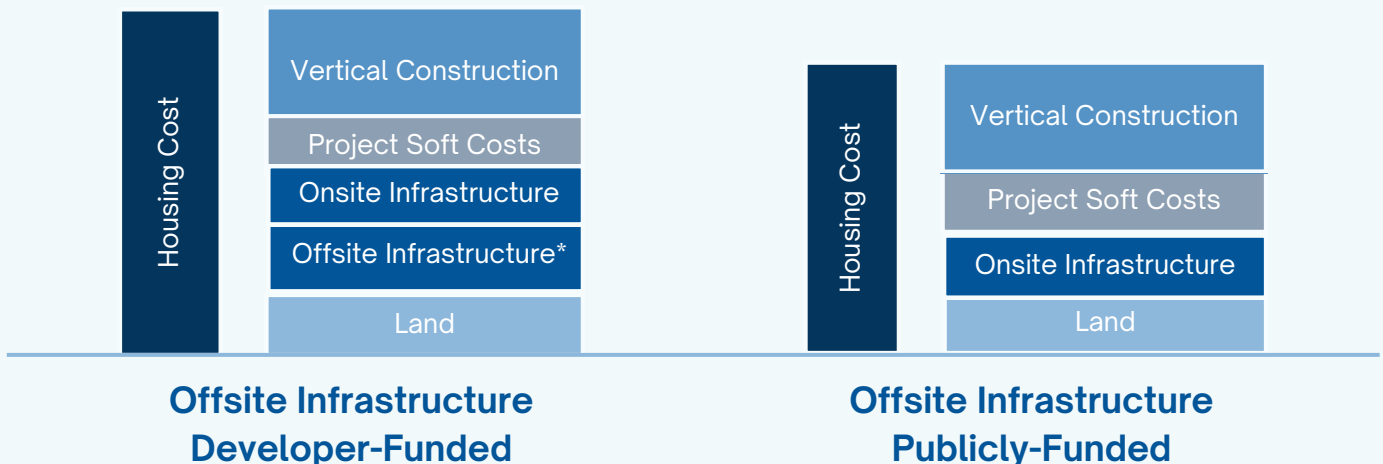
### BEFORE HOUSING CAN BE BUILT

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



\* 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

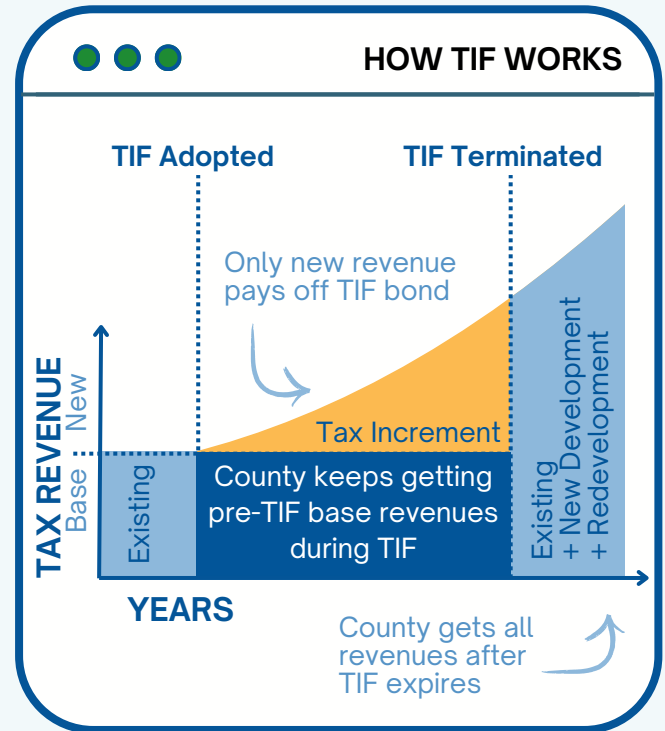
# Support Infrastructure with Tax Increment Financing

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

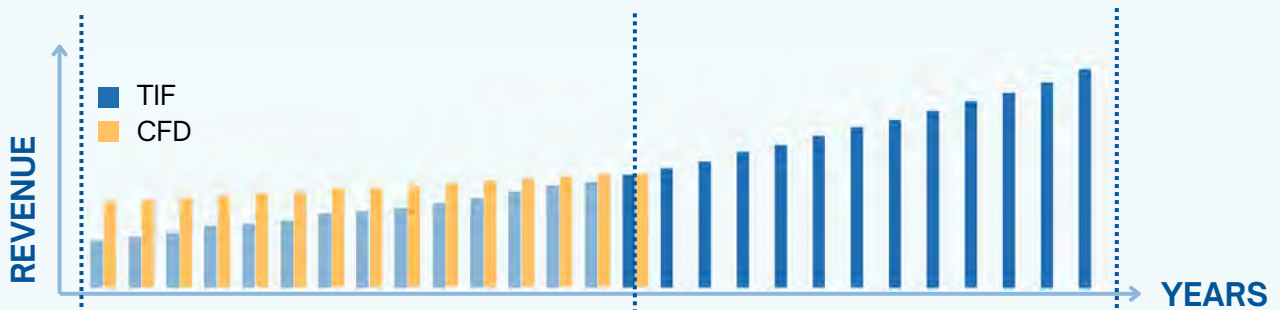
TIF Districts can take time to generate revenues strong enough to support a bond issuance. Overlaying CFD and TIF can help raise short-term financing while development and TIF revenues ramp up.

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



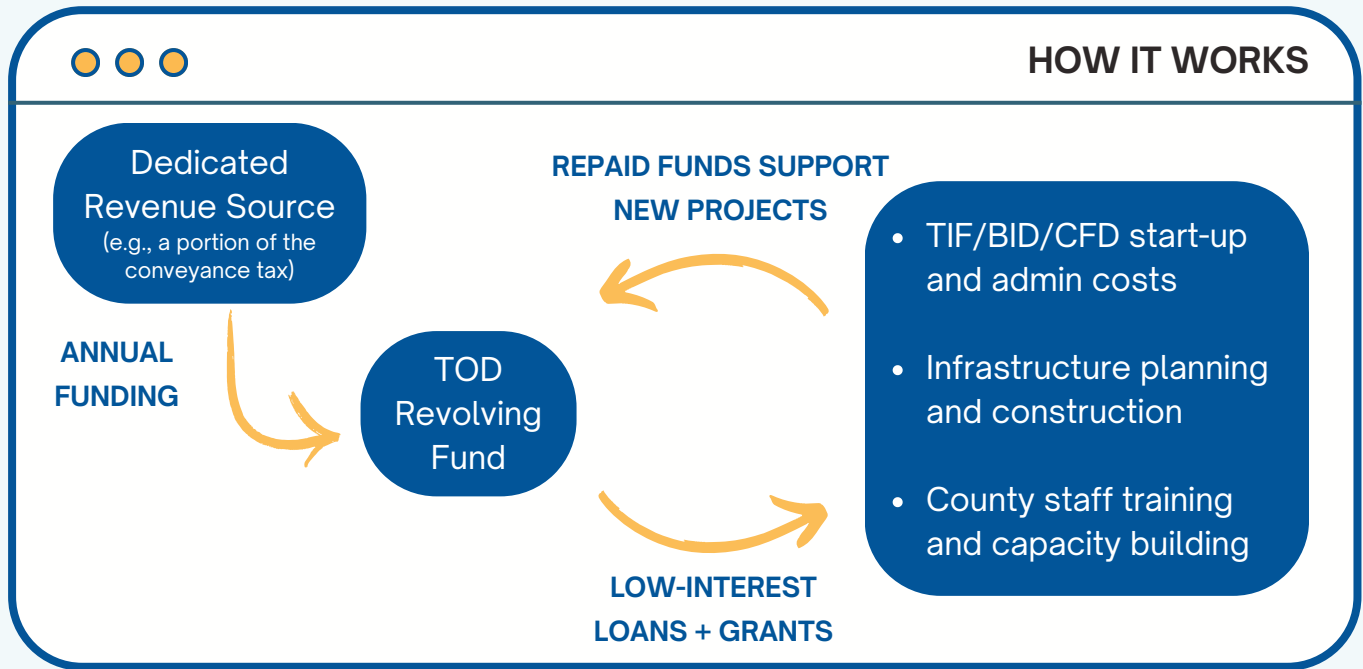
ACTIONS 1 AND 4

# 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

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](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](mailto:dbedt.op.lud@hawaii.gov) or (808) 587-2842.

## Project Partners



**JOSH GREEN, M.D.**  
GOVERNOR

**SYLVIA LUKE**  
LT. GOVERNOR

**JAMES KUNANE TOKIOKA**  
DBEDT DIRECTOR

**DANE K. WICKER**  
DBEDT DEPUTY DIRECTOR



**BRENNON T. MORIOKA**  
CHAIR, STADIUM AUTHORITY

**RYAN G. ANDREWS**  
STADIUM MANAGER

**CHRIS J. SADAYASU**  
DEPUTY STADIUM MANAGER

*An Agency of the State of Hawaii*

March 15, 2024

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

**HOUSE COMMITTEE ON  
JUDICIARY & HAWAIIAN AFFAIRS**

Friday, March 15, 2024  
2:00 P.M.  
State Capitol, Conference Room 325

In consideration of  
**S.B. 3008, SD2**  
**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 Tarnas, Vice Chair Takayama and Members of the Committee.

The Stadium Authority supports Senate Bill 3008, SD2 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



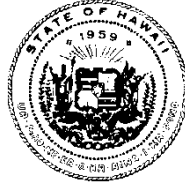
Constitution. Passing this Bill would allow for the constitutional cloud to be lifted should the ballot question be voted through by the electorate in the upcoming election.

Tax increment financing (TIF) has been widely used in other states to capture the increased property values in dense, mixed-use transit-oriented developments. 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.

**JOSH GREEN, M.D.**  
GOVERNOR

**SYLVIA LUKE**  
LT. GOVERNOR



**DEAN MINAKAMI**  
EXECUTIVE DIRECTOR

**STATE OF HAWAII**

DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT AND TOURISM  
HAWAII HOUSING FINANCE AND DEVELOPMENT CORPORATION  
677 QUEEN STREET, SUITE 300  
HONOLULU, HAWAII 96813  
FAX: (808) 587-0600

Statement of  
**DEAN MINAKAMI**  
Hawaii Housing Finance and Development Corporation  
Before the

**HOUSE COMMITTEE ON JUDICIARY & HAWAIIAN AFFAIRS**

Friday, March 15, 2024 at 2:00 p.m.  
State Capitol, Room 325

In consideration of  
**S.B. 3008 SD2**

**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 Tarnas, Vice Chair Takayama, and members of the Committee.

HHFDC **supports** SB 3008 SD2, which 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.

The cost of infrastructure is a major barrier to the development of housing statewide. These costs are typically paid by private housing developers who, in turn, pass them on to homebuyers and renters in the form of higher prices and rents.

This bill provides the mechanics for an innovative tool, Tax Increment Financing, to help the counties finance infrastructure and community amenities to facilitate transit-oriented development on state and private lands.

Thank you for the opportunity to testify on this bill.

**OFFICE OF HOUSING**  
**KE KE'ENA HO'OLĀLĀ KŪKULA HALE**  
**CITY AND COUNTY OF HONOLULU**

530 SOUTH KING STREET, ROOM 306 • HONOLULU, HAWAII 96813  
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RICK BLANGIARDI  
MAYOR  
MEIA



DENISE ISERI-MATSUBARA  
EXECUTIVE DIRECTOR  
PO'O HO'OKO

KEVIN AUGER  
DEPUTY DIRECTOR  
HOPE PO'O

2024-HOU-017

March 15, 2024

The Honorable David Tarnas, Chair  
The Honorable Gregg Takayama, Vice Chair  
and Members of the House Committee on Judiciary & Hawaiian Affairs  
Hawaii State Capitol  
415 South Beretania Street  
Honolulu, Hawaii 96813

Dear Chair Tarnas, Vice Chair Takayama, and Committee Members:

SUBJECT: Testimony to Support the Intent of SB3008, SD2 – Relating to Tax  
Increment Bonds

Hearing: Fri., March 15, 2024, 2:00 p.m. at the State Capitol, Rm. 325

The Blangiardi Administration supports the intent of SB3008, SD2. The proposed bill would expressly provide that the Legislature may authorize political subdivisions, such as counties, to issue tax increment bonds.

Thoughtfully structured, Tax Increment Financing (TIF), originated as a vehicle for issuing bonds to fund the redevelopment of TIF designated districts, can be a useful tool in the development and preservation of affordable housing and the infrastructure required to support it.

While we have some concerns regarding implementation of TIF bonds, we strongly support and encourage all efforts that provide counties additional powers to facilitate, finance, and expedite the development and delivery of desperately needed affordable housing for our residents.

Thank you for the opportunity to testify.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael Formby".

Michael Formby  
Managing Director  
City & County of Honolulu

# 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 2

INTRODUCED BY: Senate Committee on Ways and Means

EXECUTIVE SUMMARY: 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.

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 in the fiscal year prior to 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 in the fiscal year prior to 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

Re: SB 3008 SD 2

Page 3

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: 3/12/2024



Testimony of Move Oahu Forward  
Hearing on SB 3008  
March 15, 2024, at 2:00 pm

Representative David Tarnas, Chair  
Representative Gregg Takayama, Vice Chair  
Members of the House Committee on Judiciary and Hawaiian Affairs

**SB 3008– PROPOSING A CONSTITUTIONAL AMENDMENT TO AUTHORIZE THE COUNTIES TO ISSUE TAX INCREMENT BONDS**  
**Hearing date – March 15, 2024 at 2:00 pm**

Chair Tarnas, Vice Chair Takayama 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



March 13, 2024

Representative David Tarnas, Chair  
Representative Gregg Takayama, Vice Chair  
Members of the House Committee on Judiciary  
and Hawaiian Affairs

**RE: SB 3008 SD2– PROPOSING A CONSTITUTIONAL AMENDMENT TO  
AUTHORIZE THE COUNTIES TO ISSUE TAX INCREMENT BONDS  
Hearing date – March 15, 2024 at 2:00 PM**

Aloha Chair Tarnas, Vice Chair Takayama, and members of the committee,

Thank you for allowing NAIOP Hawaii to submit testimony in **SUPPORT of SB 3008 SD2– PROPOSING A CONSTITUTIONAL 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 SD2 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 SD2 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 country. 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

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.

#### 💡 Clarification

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

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.

#### 💡 Clarification

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.

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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.

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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.



**TESTIMONY BEFORE THE HOUSE COMMITTEE ON  
JUDICIARY & HAWAIIAN AFFAIRS**

**SB 3008, SD2  
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**

Friday, March 15, 2024  
2:00 PM  
State Capitol, Conference Room 325

Brent Noyama  
Assistant Treasurer  
Hawaiian Electric Company

Dear Chair Dela Cruz, Vice Chair Fukunaga, and Members of the Committee,

My name is Brent Noyama and I am testifying on behalf of Hawaiian Electric in **support** of SB 3008, SD2, which proposes 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.

Hawaiian Electric supports this bill because it could potentially provide another lower cost financing option for the Companies resulting in lower cost to our customers. The ability to borrow on a long-term basis to fund capital expenditures is critical because significant ongoing capital investment is needed to provide reliable service and advance many state energy policy objectives such as grid modernization, wildfire risk reduction, increased resilience, and continuing the rapid transition to renewables and decarbonization.

Accordingly, the Hawaiian Electric supports SB 3008, SD2 and requests the bill's passage. Thank you for this opportunity to testify.

■ March 13, 2024

The Honorable David A. Tarnas, Chair  
The Honorable Gregg Takayama, Vice Chair  
and Members of the House Committee on Judiciary and Hawaiian Affairs

Re: Testimony: SB 3008, SD2, 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: March 15, 2024 at 2:00 PM, Conference Room 325

Dear Chair Tarnas, Vice Chair Takayama, and Committee Members:

Stanford Carr Development submits testimony in **support** of Senate Bill 3008, SD2 which proposes amendments to the Hawaii Constitution to include a definition of Tax Increment Bonds necessary to authorize the counties to issue the tax increment bonds.

Tax Increment Bonds, also known as Tax Increment Financing (TIF), supports public investment in an area that induces property value growth and increases property tax revenue. A portion of the revenue increase is used to pay the bond debt service. This financing option provides an additional tool to support infrastructure and redevelopment efforts throughout our state.

In 1952 the State of California introduced the TIF. Today, only Hawaii and Arizona lag other states in terms of enabling legislation to implement the financing tool. TIF is widely used in many metropolitan cities for redevelopment, utilizing private institutional capital markets to finance the construction of public and private improvements. In some cases, the use of both Community Facilities Bond Financing in conjunction with TIF is widely used for the development of public/private infrastructure improvements, while TIF utilizes private capital to finance both public and private improvements with private capital investment achieved through the purchase of tax-exempt bonds.

The Tax Increment Financing Act of 1985 was intended to authorize counties to issue tax increment bonds. Subsequently, legal counsel and bond counsel opinions have recommended the amendment to the state constitution to provide clarification by including a formal definition of Tax Increment Bonds. We seek your support of this legislation.

Thank you for the opportunity to offer testimony on this measure.

Respectfully,



Stanford S. Carr