



**DEPARTMENT OF BUSINESS,
ECONOMIC DEVELOPMENT & TOURISM**
KA 'OIHANA HO'OMOHALA PĀ'OIHANA, 'IMI WAIWAI
A HO'OMĀKA'IKA'I

JOSH GREEN, M.D.
GOVERNOR

SYLVIA LUKE
GOVERNOR
JAMES KUNANE TOKIOKA
DIRECTOR

DANE K. WICKER
DEPUTY DIRECTOR

No. 1 Capitol District Building, 250 South Hotel Street, 5th Floor, Honolulu, Hawaii 96813
Mailing Address: P.O. Box 2359, Honolulu, Hawaii 96804
Web site: dbedt.hawaii.gov

Telephone: (808) 586-2355
Fax: (808) 586-2377

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September 9, 2024

The Honorable Ronald D. Kouchi
President and Members
of the Senate
Thirty-Second State Legislature
State Capitol, Room 409
Honolulu, Hawai'i 96813

The Honorable Scott K. Saiki
Speaker and Members of the
House of Representatives
Thirty-Second State Legislature
State Capitol, Room 413
Honolulu, Hawai'i 96813

Dear President Kouchi, Speaker Saiki and Members of the Legislature:

The Office of Planning and Sustainable Development (OPSD) is hereby transmitting its report and recommendations associated with House Concurrent Resolution No. 140, H.D. 1, S.D. 1, which was adopted by both the Senate and the House of Representatives of the Thirty-Second Legislature of the State of Hawaii, Regular Session of 2024. While the report is due no later than twenty days prior to the Regular Session of 2025, OPSD is submitting it early such that it can be of use to legislators who are drafting bills for introduction in 2025.

In accordance with Section 93-16, Hawaii Revised Statutes, I am also informing you that the report may be viewed electronically at:

<http://dbedt.hawaii.gov/overview/annual-reports-reports-to-the-legislature/>.

If you have any questions, please contact Katia Balassiano, Planning Program Administrator, at (808) 587-2885 or Katia.Balassiano@hawaii.gov.

Sincerely,

James Kunane Tokioka
DBEDT Director

c: Legislative Reference Bureau

FISCAL SUSTAINABILITY

Report to the 2025 State Legislature
in Response to HCR 140 HD1 SD1, 2024 Legislative Session

Prepared by State of Hawaii Office of Planning and Sustainable Development

House Concurrent Resolution No. 140, H.D. 1, S.D. 1 (HCR140 HD1 SD1), which was adopted by both the Senate and the House of Representatives of the Thirty-Second Legislature of the State of Hawaii, Regular Session of 2024, requested the Office of Planning and Sustainable Development (OPSD) to develop a scope of work or a request for proposals (RFP) for bidders to perform their own analysis and methodology that determines whether development will contribute to the long-term fiscal sustainability of the State and respective county. A copy of HCR140 HD1 SD1 is attached. OPSD was also requested to submit a report on the development of the scope of work or RFP, including findings, recommendations, and any proposed legislation, to the Legislature no later than twenty days prior to the Regular Session of 2025. No funds were appropriated for this effort. This report responds to the Resolution and fulfills the requirement for the submittal of findings and recommendations to the 2025 Legislature.

I. APPROACH

Fiscal sustainability is the ability of a government to maintain public finances at a credible and serviceable position over the long term. The OPSD agrees that maintaining fiscal sustainability is important. New development proposals should not only be evaluated against adopted development regulations and construction standards, but also in relation to the fiscal productivity of the proposed product, e.g., new structure or infrastructure investment. New commitments to construction and maintenance should not adversely impact government's ability to satisfy existing liabilities or promised expenditures. Neither the State nor counties have comprehensive methodologies that easily:

- capture the data necessary to assess fiscal impacts,
- facilitate the evaluation of proposed development projects or investments, and
- generate outputs that can be read and interpreted by both finance experts and laypeople.

Given that funds were not appropriated for the development of such a methodology or model, rather than developing a detailed scope of work or RFP, the OPSD drafted a bill that appropriates funding for fiscal sustainability modelling and creates a steering committee. The development of an RFP, that includes a detailed scope of work, would benefit from input from financial experts, those who manage public data sources, and those who would regularly use such a model. The OPSD envisions that a steering committee, as discussed below, is crucial to the success of this effort.

II. FINDINGS & RECOMMENDATIONS

A. STEERING COMMITTEE

The use of a steering committee is recommended. Committee representatives could include State and county staff who collect tax and utility data, oversee operating budgets, process discretionary permits, and make recommendations pertaining to entitlements and infrastructure investments. Members could be appointed from the following entities:

- The State’s office of planning and sustainable development,
- The State’s department of budget and finance,
- The State’s department of taxation,
- The research and economic analysis division of the department of business, economic development and tourism,
- County budget and finance departments, and
- County planning departments.

County steering committee members could serve as points of contact for other county staff. This fiscal sustainability modelling effort would likely involve planning, finance, public works, and other utility-type departments to compile and match the funding data (taxes, bills, etc.) to costs (services, infrastructure maintenance and replacement, etc.).

B. CONSULTANT

HCR140 HD1 SD1 recognizes the need for a consultant. The phrase “bidders to perform their own analysis and methodology” in HCR140 HD1 SD1 suggests a desire for independent thinking that is not influenced by a predetermined output or product. The intention is to generate a methodology that fairly and with transparency helps assess both individual project proposals and regional investments.

The effort would benefit from a consultant with public sector fiscal modeling expertise, that bridges tax analysis and land use planning. Statewide data would need to be collected to create a basic model, which could then be further customized for each county. The consultant will need to access tax assessor databases, understand budgets, account for existing ways that permits are currently processed, develop a model or models that can be updated by non-technical staff, and generate outputs that can be understood by a layperson. Such a consultant should be comfortable communicating with decision makers, public employees, and the public. A consultant should be able to generate the data, models, and presentations similar to the one used by, for example, Springfield, Missouri (<https://www.springfieldmo.gov/5984/Fiscal-Impact-Analysis>).

Ultimately, a consultant should be selected who can develop a model or models whereby:

- State and county fiscal revenues and costs can be mapped by land use type;
- Fiscal productivity of various development patterns in Hawaii can be compared at the parcel level, by land use type;
- The value of new development can be measured and evaluated, and measured against proposed or requested entitlements;
- Public policy decisions can be analyzed to reduce or eliminate taxpayer subsidies; and
- Funding of capital improvements can be prioritized based on their anticipated return on investment.

A base model using State data could be customized for each county. State and county staff should be able to run the models and evaluate project-specific impacts. State and county staff should be able to update the models, when necessary, without the assistance of a consultant. Updates may be needed in response to revised tax rates, utility rates, and infrastructure costs.

C. REQUEST FOR PROPOSALS AND SCOPE OF WORK

Given the anticipated cost of this effort and skills needed, it may be assumed that an RFP should be used to procure a consultant rather than selecting a consultant from a professional services list. An RFP can be customized by the steering committee to ensure that all necessary tasks and skills are captured. If advertised correctly, an RFP can reach more interested consultants and generate competition that could either lower the cost of the project or result in more robust deliverables.

An RFP contains both standard procurement language and a project-specific scope. Major sections of an RFP typically include:

- Introduction, incl. Terms, Acronyms and Key Dates
- Background and Scope of Work
 - Project Overview and History
 - Scope of Work
 - Lead State Department Responsibilities
 - Term Of Contract (Length of Time)
 - Contract Administrator
- Proposal Format and Content
- Evaluation Criteria

- Contractor Selection and Contract Award
- Special Provisions
- Attachments and Exhibits
 - Attachment 1: Offer Form, Of-1
 - Attachment 2: Offer Form, Of-2
 - Exhibit A: General Provisions
 - Exhibit B: Contract Form and Attorney General (AG) General Conditions
 - Exhibit C: Overview of the RFP Process

Minimally, the consultant will need to develop a model, customized for each county, that allows for the assessment of fiscal costs and benefits of individual land development projects and regional investments, within the same market. Such a model, or models, should be able to account for estimated ongoing maintenance costs and future replacement costs of infrastructure serving land development projects and any annual general costs including, for example, public safety and administrative services. The model should allow users to input data such that:

1. State and county fiscal revenues and costs can be mapped by land use type;
2. Fiscal productivity of various development patterns in Hawaii can be compared at the parcel level, by land use type;
3. The value of new development can be measured and evaluated, and measured against proposed entitlements;
4. Public policy decisions can be analyzed to reduce or eliminate taxpayer subsidies; and
5. Funding of capital improvements can be prioritized based on their anticipated return on investment.

The scope of work should also describe the degree to which government employees will need training and training materials to use and update the models. Ideally, government employees will be able to successfully manipulate and update the model(s) themselves and not be beholden to a consultant for long-term maintenance.

Finally, the scope should likely specify that the model outputs can be easily read and interpreted, ideally with geo-referenced visual mapping, by laypeople.

Athens-Clarke County, Georgia, sought a consultant to conduct work similar to that contemplated by HCR140 HD1 SD1. Athens-Clarke County identified the following work in their 2023 RFP:

1. Collection and organization of local data regarding land values, local tax millage rates, development conditions, land use regulations, and cost of public infrastructure and local government services.
2. Mapping of data to illustrate land value, tax value, and value per acre.

3. Analysis of parcel-specific tax production throughout Athens-Clarke County, including scenario projections of potential future tax revenues based on varying approaches to build out and density of development.
4. Analysis of the real and complete costs for public infrastructure and service delivery and the amount that ACCGov has budgeted for this infrastructure and service delivery.
5. Public engagement: At a minimum, the consultant will make three public presentations of which at least one shall be presented on-site and in-person. The presentations shall include, at a minimum, the approach used to complete the project, the consultant's analysis and findings, as well as recommendations for future action based on their results. Presentation formats may be public forums, workshops, meetings.
6. Deliverables:
 - a. Analysis of past and present land use and development patterns, tax revenues related to development and infrastructure costs and maintenance obligations assumed by ACCGov, and inclusion of the findings in the presentation, report, and/or graphics.
 - b. Complete set of all data generated by the consultant's analysis.
 - c. Analyses and graphic illustrations of the data that reflect the relative economic and fiscal effectiveness of current land uses and development patterns on a per parcel basis.
 - d. Analysis of the long-term fiscal impact of property tax assessments as they relate to total tax revenue of development. Included in this item will be the identification of possible alternate uses of ACCGov-owned properties that benefit sustainable growth.
 - e. Projections of select urban design/land use scenarios and potential development projects to be selected in consultation with ACCGov staff, and the fiscal impact on tax revenues, other revenues, infrastructure, and service costs.
 - f. Analyses of existing public right-of-way, water, sanitary sewer, stormwater, and transit service delivery obligations and the fiscal contributions from varying development patterns.
 - g. Fiscal analysis of ACCGov's extent of municipal services as related to the existing and anticipated development footprint of Athens-Clarke County.
 - h. Diagnostic tools/applications that enable ACCGov staff to evaluate proposed development for its econometric impact to the community.
 - i. Presentation of the draft models/analysis to ACCGov staff, as needed, in order to receive feedback on project progress and development of deliverables. Such presentations can be held in an online meeting format.
 - j. An online report, which will contain all graphics created as part of the analysis and explanatory narrative supporting the graphics.

- k. Recommendations based on the analyses of ACCGov ordinances, ACCGov policies and fiscal strategies, Athens-Clarke County development types.

The steering committee may decide to seek guidance from the Government Finance Officers Association whose researchers could assist with best practices and provide advice on crafting a scope. They may also be able to compile a list of consultants who have the expertise to accomplish the necessary tasks. The steering committee should be able to formulate a scope that is both actionable and produces what is needed to assess fiscal impacts at different geographic scales.

D. PROJECT COST

OPSD's research reveals that developing a model for each county would cost approximately \$150,000 per county. A statewide model that both the State and counties could use to analyze the fiscal productivity of infrastructure investments and evaluate development projects would cost approximately \$500,000 to \$600,000. This total cost should be sufficient to cover model development, testing, training, the production of training materials, and some initial maintenance.

The agency that manages this contract and schedules/staffs the meetings of the steering committee will need one person or full-time equivalent to lead this effort. An exempt employee with skills comparable to a Planner V could likely manage this effort. A Planner V's salary and benefits total approximately \$150,000 annually.

III. PROPOSED LEGISLATION

Legislation is required to create a fiscal sustainability steering committee and fund a consultant to create the necessary model(s). Attached is a draft of a bill that should accomplish those tasks. For the sake of expediency, OPSD is identified as the steering committee co-chair and lead on developing the model (hiring the consultant) that assesses the fiscal impacts of development project proposals and regional infrastructure investments; however, there are other agencies that can, or perhaps should, take the lead.

ATTACHMENT
HCR140 HD1 SD1

HOUSE CONCURRENT RESOLUTION

URGING THE OFFICE OF PLANNING AND SUSTAINABLE DEVELOPMENT TO DEVELOP A SCOPE OF WORK OR REQUESTS FOR PROPOSALS FOR BIDDERS TO PERFORM THEIR OWN ANALYSIS AND METHODOLOGY THAT DETERMINES WHETHER A DEVELOPMENT WILL CONTRIBUTE TO THE LONG-TERM FISCAL SUSTAINABILITY OF THE STATE AND RESPECTIVE COUNTY.

1 WHEREAS, low density development patterns across the United
2 States consistently cost more in infrastructure maintenance
3 costs and general service expenditures than they provide in tax
4 revenue; and

5
6 WHEREAS, this deficit continues to get worse, and new
7 developments continue to be planned without accounting for
8 future maintenance, infrastructure costs, and service costs; and

9
10 WHEREAS, the State faces additional pressures of an aging
11 population and shrinking workforce, resulting in an increasing
12 share of the budget going toward employee pension and retiree
13 health care benefits; and

14
15 WHEREAS, Hawaii will be heavily impacted by rising sea
16 levels, with the Hawaii Sea Level Rise Vulnerability and
17 Adaptation Report estimating that there will be a 3.2 feet of
18 sea level rise, which will lead to the loss of \$19,000,000,000
19 in land and structures, thirty-eight miles of major road
20 flooded, six thousand five hundred flooded structures, nineteen
21 thousand eight hundred displaced people, and an incalculable
22 cost to fortify, rebuild, or relocate critical infrastructure;
23 and

24
25 WHEREAS, the Government Accountability Office forecasts
26 that partially due to an aging population and the need to
27 replace degrading infrastructure, state and local governments

I do hereby certify that the within document
is a full, true and correct copy of the original
on file in this office.

K.L. T. [Signature]

Chief Clerk
House of Representatives
State of Hawaii



1 will operate negative balances until 2060 without major policy
2 change; and

3
4 WHEREAS, between 2012 and 2018, the cost of state
5 government increased forty-one percent, despite the number of
6 employees remaining relatively flat, with similar trends
7 throughout each of the counties; and

8
9 WHEREAS, fiscal sustainability is achieved when a city can
10 cover its cost obligations and provide high service quality for
11 its residents without major tax increases or degradation of city
12 facilities over a long-term period; and

13
14 WHEREAS, maintaining fiscally sustainable development is
15 possible and keeping developments sustainable will help Hawaii
16 to build infrastructure, invest in vibrant public spaces, and
17 house the State's growing population; and

18
19 WHEREAS, to maintain fiscal sustainability, it is critical
20 to evaluate new development proposals not only against adopted
21 development regulations and construction standards but also in
22 relation to the fiscal productivity of the product; and

23
24 WHEREAS, fiscal productivity is defined as the amount of
25 private wealth created on any specific land area of the city
26 translating in part to tax revenues to the city; and

27
28 WHEREAS, proposed developments should be judged, in part,
29 based on their long-term fiscal cost or benefit to the city; and

30
31 WHEREAS, state and county land use planning will be
32 assisted by developing a fiscal analysis methodology to evaluate
33 existing and proposed developments by their expected tax
34 contributions and their ongoing costs for services and
35 infrastructure; now, therefore,

36
37 BE IT RESOLVED by the House of Representatives of the
38 Thirty-second Legislature of the State of Hawaii, Regular
39 Session of 2024, the Senate concurring, that the Office of
40 Planning and Sustainable Development is urged to develop a scope
41 of work or requests for proposals for bidders to perform their
42 own analysis and methodology that determines whether a
43 development will contribute to the long-term fiscal
44 sustainability of the State and respective county; and



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BE IT FURTHER RESOLVED that bidders are urged to:

- (1) Develop a visual mapping analysis of current development patterns showing estimated value per acre to help compare the fiscal productivity of various development patterns throughout Hawaii; and
- (2) Consider a methodology that estimates ongoing maintenance costs and the future replacement costs of the infrastructure serving a development and the annual general service, including public safety and general administrative services, and costs for the development; and

BE IT FURTHER RESOLVED that the Office of Planning and Sustainable Development is requested to submit a report on the development of the scope of work or requests for proposals, including findings, recommendations, and any proposed legislation, to the Legislature no later than twenty days prior to the Regular Session of 2025; and

BE IT FURTHER RESOLVED that a certified copy of this Concurrent Resolution be transmitted to the Director of the Office of Planning and Sustainable Development.



ATTACHMENT
DRAFT BILL

____.B. NO.____

A BILL FOR AN ACT

RELATING TO FISCAL SUSTAINABILITY.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

1 SECTION 1. The legislature finds that maintaining fiscal
2 sustainability is critical. New development proposals need to
3 be evaluated not only against adopted development regulations
4 and construction standards, but should be judged, in part, based
5 on their long-term revenues and costs incurred by public
6 entities.

7 The legislature further finds that land use planning will
8 be assisted by a methodology that evaluates existing and
9 proposed development by their expected fiscal contributions and
10 their ongoing costs for services and infrastructure. Such a
11 methodology would give decision-makers and the public the
12 information needed to assess both individual project proposals
13 and regional investments. The development of such a methodology
14 requires the assistance of a steering committee and an entity
15 with the necessary fiscal modeling expertise.

16 Accordingly, the purpose of this bill is to:

- 17 (1) Establish a fiscal sustainability steering committee;
18 and

____.B. NO.____

1 (2) Appropriate funds.

2 SECTION 2. (a) The office of planning and sustainable
3 development shall undertake the development of a model that can
4 be used to assess the fiscal impacts of land use development
5 projects and regional infrastructure investments. The office
6 may procure consultant services for the development and
7 operationalization of the model.

8 (b) The objectives of this effort shall include, but not
9 be limited to, the following:

10 (1) Developing a model, customized for each county, that
11 allows for the assessment of fiscal costs and benefits
12 of individual land development projects and regional
13 investments, within the same market. Such a model, or
14 models, should be able to capture estimated ongoing
15 maintenance costs and future replacement costs of
16 infrastructure serving land development projects and
17 any annual general costs including, for example,
18 public safety and administrative services. The model
19 should allow users to input data such that:

20 (A) State and county fiscal revenues and costs can be
21 mapped by land use type;

____.B. NO.____

1 (B) Fiscal productivity of various development
2 patterns in Hawaii can be compared at the parcel
3 level, by land use type;

4 (C) The value of new development can be measured and
5 evaluated, and measured against proposed
6 entitlements;

7 (D) Public policy decisions can be analyzed to reduce
8 or eliminate taxpayer subsidies; and

9 (E) Funding of capital improvements can be
10 prioritized based on their anticipated return on
11 investment;

12 (2) Training county and state employees in the use and
13 updating of the models and understanding of the
14 methodology. Developing user-tested training
15 materials such that, upon completion of this effort,
16 the counties can successfully manipulate and update
17 the model; and

18 (3) Ensuring that the model outputs can be easily read and
19 interpreted, with geo-referenced visual mapping, by
20 members of the public.

_____.B. NO._____

1 (c) The office shall establish and support a steering
2 committee to advise the project, composed of the following
3 members:

4 (1) The director of the office of planning and sustainable
5 development, or the director's designee, who shall
6 serve as co-chairperson;

7 (2) The director of the department of budget and finance,
8 or the director's designee, who shall serve as co-
9 chairperson;

10 (3) The director of the department of taxation (DoTAX), or
11 the DoTAX research and planning officer;

12 (4) The administrator of the research and economic
13 analysis division of the department of business,
14 economic development and tourism, or the
15 administrator's designee;

16 (5) The budget and finance directors of each county, or
17 their respective designees; and

18 (6) The planning directors of each county, or their
19 respective designees;

20 (d) The office shall submit a report documenting the
21 results of the project to the legislature no later than twenty
22 days prior to the convening of the regular session of 2027.

____.B. NO. _____

1 SECTION 3. There is appropriated out of the general
2 revenues of the State of Hawaii the sum of \$600,000 or so much
3 thereof as may be necessary for fiscal years 2025-2027 to
4 conduct the fiscal impact model development project in section
5 2.

6 The sum appropriated shall be expended by the office of
7 planning and sustainable development for the purposes of this
8 Act.

9 SECTION 4. There is appropriated out of the general
10 revenues of the State of Hawaii the sum of \$150,000 or so much
11 thereof as may be necessary for fiscal years 2025-2026 and
12 \$150,000 or so much thereof as may be necessary 2026-2027 to
13 hire a temporary full-time equivalent (1.0 FTE) planner (planner
14 V equivalent), who shall be exempt from chapter 76, Hawaii
15 Revised Statutes, to manage the fiscal impact model development
16 project in section 2 and support the work of the steering
17 committee.

18 The sum appropriated shall be expended by the office of
19 planning and sustainable development for the purposes of this
20 Act.

21 SECTION 5. This Act shall take effect on July 1, 2025.

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____.B. NO.____

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INTRODUCED BY: _____

2

____.B. NO. _____

Report Title:

Land Use Fiscal Impact Model; Fiscal Sustainability;
Appropriation

Description:

Requires the Office of Planning and Sustainable Development to develop a model or models that assesses the fiscal impacts of development project proposals and regional infrastructure investments. Appropriates funds.

The summary description of legislation appearing on this page is for informational purposes only and is not legislation or evidence of legislative intent