This presentation was prepared by Kenna Stormogipson for the Hawai'i Interagency Transit-Oriented Development Council in partial fulfillment of the requirements for a Master of Public Affairs (MPA) degree from the Goldman School of Public Policy at UC Berkeley.
Background

How we got here
Gov't Construction Spending, % Hawaii GDP

Source: Paul Brewbaker, Ph.D., Certified Business Economist, TZ Economics March 2018

Spending HALF of Previous Levels
Single Family Home Cost vs. Supply (O'ahu)

Home Prices & Wages (CPI adj) vs Supply (Honolulu)


- Real Median Home Prices
- Total Housing Stock

- Year 2001: Real Median Home Prices 295, Total Housing Stock 322
- Year 2003: Real Median Home Prices 328, Total Housing Stock 337
- Year 2005: Real Median Home Prices 547, Total Housing Stock 340
- Year 2007: Real Median Home Prices 494, Total Housing Stock 340
- Year 2009: Real Median Home Prices 452, Total Housing Stock 340
- Year 2011: Real Median Home Prices 474, Total Housing Stock 348
- Year 2013: Real Median Home Prices 536, Total Housing Stock 348
- Year 2015: Real Median Home Prices 536, Total Housing Stock 348
Price & Supply 2000-2017

155% increase in price, 9% increase in supply

ULI 2018 Report "Emerging Trends in Real Estate"
Tens of thousands
New Units

$1.5 Billion
Infrastructure
Developer expected to pay:

- Roads
- Sewers
- Parks
- Schools...
• Less Taxpayer Money

• Can be faster

• Cost savings in efficiency (labor and project management)
Inelastic Supply = Costs added onto developers budget

***Does not come from developers profits
Private Financing - Equity and Debt

![Diagram showing blended cost of capital with equity at 30%, interest at 20%, debt at 70%, and blended interest at 9.5%.]
Capital Stack Trends

9.5%
Equity 30%
Debt 70%
Before

11%
Equity 40%
Debt 60%
Current

12.5%
Equity 50%
Debt 50%
Future
Private Financing.... Is it worth it?

Public vs. Private Money ($10M loan), in millions

<table>
<thead>
<tr>
<th>Year</th>
<th>Public Bonds</th>
<th>Private Money</th>
</tr>
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<tbody>
<tr>
<td>Y1</td>
<td>$0.3</td>
<td>$1.1</td>
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<tr>
<td>Y2</td>
<td>$0.6</td>
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<td>Y3</td>
<td>$0.9</td>
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<td>Y4</td>
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<tr>
<td>Y5</td>
<td>$1.5</td>
<td>$5.5</td>
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First Mover Disincentive-
Wait for others to go first.

Must do higher price projects
to cover added costs.
Less Housing is Created
What is built is more expensive
"Capture" monetary benefit of increased property value from public investment through taxes.
Community Facilities District (CFD)

Added Assessment "Tax" on Property

Bonds can be issued at 4-6%

Owners Must Agree: "Protest by more than 55%" of the owners of the land can stop CFD (i.e. over 45% must agree)

Extra Tax must be low to stay competitive
One Successful CFD in HI: Kukui'ula (Kaua'i)

- 2008 - Formed
- 2012- $12M Bonds
  $2.2M Cost
  (formation & Issuance)
- 5.5% Interest, 20-30 yr.

Extra Assessment = 0.32% plus baseline 0.425% Total Tax = 0.745%

Competitive: Maui = 0.575%  Hawaii = 0.92%

$500,000+ collected from 160 homeowners every year.
Benefits:

- Kaua‘i County received 15% of Net Bond Funds = ~950,000
- Developer paid for external roads, park
- Bonds paid by new homeowners - not city or developer (5.5%)

Downside:

- New Residents shoulder burden
- Cost of bond issuance - 10-20% of total bonds
- Cost of formation

Many Attempts... Hawai‘i County, Gentry-Waiwa on Oahu
CFD's can increase feasibility IF...

- Easier and cheaper to form (300k, 4-6 mths)
- Extra tax isn’t too high- competitive with other places.
- Landowner consent (over 45% owners must agree)
- Expectations for developers are clear
Tax Increment Financing

No new taxes! Divert Future Funds
TIF incentive: "one pot"

California 1.2%
- Special Districts, 18%
- Counties, 22%
- Cities, 15%
- Schools, 45%

Chicago 6.8%
- Forest Preserve District 1%
- City Colleges 3%
- Water Reclamation District 6%
- Park District 6%
- Cook County 8%
- Library Fund 2%
- City of Chicago 19%
- Chicago Public Schools 54%
- School Building Fund 2%

NYC, 0.8-2.00%
- 100% NYC

425 Districts
147 Districts
One District
TIF = "capture" other districts money

CA Tax Distribution

- Special Districts, 18%
- County, 15%
- Schools, 45%
- Cities, 22%

Future Tax Increment

Goes towards redevelopment

Makes the Decision
NYC created one TIF

In 2007 for Hudson Yards Subway Extension.

GO Bond limit- needed workaround
Hudson Yards: PILOT IF (Payment in Lieu Of Taxes)

- $3B Financing by NYC
- Legal Workaround- Developer Agreements
- $20 B in Private Investment, 7,000 FTE /yr
- Tax Revenue is paying bonds
TIF Concept Very Helpful...

TOD project
160 Units
(2bd/2ba)
$580k cost
$700k sale

$93M total
$9.3M Infrastructure
=$10.3 Bonds
$15.6 payment
TIF Barriers

- Counties receive 100% of Property Taxes (less incentive)
- State Constitution does not specifically name TIF
- Low Tax Rate

TIF Concept

- Could use targeted GO bonds - specific areas
- PILOT Developer Agreements (NYC)
- Future revenue covers cost of Bond- incentivize dev.
General Obligation (GO) Bonds

City = Based on Future Prop Tax Revenue

State = Based on Future Sales & Income Revenue

3% Interest Rate on Bonds

Increased revenues can cover costs
If Goal = Affordable Housing

Move away from Developer Paying

Combo: State, City & CFD
Public Funding needed to incentivize building

- If few landowners - use CFD.
  - Assessment amount can not be too high relative to taxes

- Invest Bonds Now & Repay w/ Value Capture: City & State
  - TIFF financial models help determine future tax benefit

- PUBLIC funding can save big costs on Financing! 3% vs 11%

- More HOUSING sooner, More Affordable Housing....
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