HONOLULU CITY COUNCIL
KE KANIHELA O KE KALANA O HONOLULU
530 S. KING ST. STE. 202, HONOLULU, HI 96813

August 20, 2025

Council Chair Tommy Waters
Members of the City Council
530 S. King Street, Room 202
Honolulu, HI 96813

Dear Chair Waters,

SUBJECT: PERMITTED INTERACTION GROUP REPORT
Resolution 25-56, CD1 Establishing a Permitted Interaction Group to Discuss and Explore the Potential Use of Tax Increment Financing by the City and County of Honolulu

Resolution 25-56, CD1, in accordance with Section 92-2.5, Hawaii Revised Statutes, established a Permitted Interaction Group ("PIG") to discuss and explore the potential use of tax increment financing ("TIF") by the City and County of Honolulu.

The members of your Permitted Interaction Group respectfully submit this report to the City Council in accordance with Resolution 25-56, CD1.

Mahalo,

RADIANT CORDERO
Councilmember, District VII

TYLER DOS SANTOS-TAM
Councilmember, District VI

SCOTT NISHIMOTO
Councilmember, District V

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KE KANIHELA O KE KALANA O HONOLULU
530 S. KING ST. STE. 202, HONOLULU, HI 96813

SUBJECT: REPORT OF THE PERMITTED INTERACTION GROUP ON TAX INCREMENT FINANCING pursuant to Resolution 25-56, CD1

I. Introduction and Background

Pursuant to Resolution 25-56, CD1 and in accordance with Section 92-2.5, Hawaii Revised Statutes, the Honolulu City Council established a permitted interaction group ("PIG") composed of Councilmembers Radiant Cordero, Tyler Dos Santos-Tam, and Scott Nishimoto, Director Andy Kawano of the Department of Budget and Fiscal Services, Director-Designate Kevin Auger of the Department of Housing and Land Management, and Tim Streitz of the Department of Planning and Permitting. The PIG was convened to explore and evaluate tax increment financing ("TIF") as a mechanism for funding infrastructure, particularly in support of transit-oriented development ("TOD") and housing.

TIF is a public financing method used to subsidize infrastructure and community improvement projects. It captures the future increase in property tax revenues (the "tax increment") generated by rising property values within a designated district. These incremental revenues are then reinvested into that same district to fund infrastructure improvements, affordable housing, or other development-related costs. TIF is commonly used in mainland cities in the United States to revitalize blighted or underdeveloped areas where development would not otherwise occur without public investment.

The PIG held three meetings on May 6, May 13, and May 21 of 2025. This report summarizes the PIG's findings, discussions, and key conclusions.

II. Summary of Deliberations

The group reviewed the core mechanics of TIF, including the "pay-as-you-go" and bond-financed models. Members recognized TIF's potential in directing incremental property tax revenues toward infrastructure investments within designated districts.

Across the meetings, the group examined the legal, fiscal, and implementation aspects of TIF, as well as its applicability within Honolulu's unique governance and tax environment. Major considerations included the following:

- TIF can act as a catalyst by signaling public commitment to an area, encouraging private developers to invest in projects that might otherwise be deemed too risky.

- This leveraging effect can multiply the economic impact well beyond the direct value of the TIF-funded improvements.

- TIF ensures that the costs of new infrastructure are paid for primarily by the area that benefits from it, without immediately raising citywide taxes.

- TIF is especially effective when paired with master planning and TOD initiatives because it can fund a bundle of related improvements—streetscapes, utilities, affordable housing, parks—rather than piecemeal fixes.

- TIF is a direct application of the value capture concept—public investment generates higher land values, and that increased value is reinvested back into the community.

- The City and County of Honolulu ("City") has exclusive control over real property taxes (unlike jurisdictions with overlapping taxing entities).

- Constitutional and statutory challenges in Hawai'i may impede implementation.

- Urban property values in Honolulu are already high, limiting potential incremental gains in early project phases.

- Impacts on the City's general fund and bond rating if property tax increments are diverted.

- Infrastructure needs often extend beyond TIF district boundaries, such as regional wastewater or water systems, complicating TIF applicability.

The group reviewed case studies and implementation models from across the country and from the County of Kaua'i, where community facilities districts ("CFDs") have been used for public infrastructure financing.

III. Key Research and Studies Considered

The group's findings were shaped by a wide body of research, including the following:

- **"Improving Tax Increment Financing for Economic Development" (October 2018) by the Lincoln Institute of Land Policy**: A comprehensive evaluation of national TIF practices, this report outlines best practices for ensuring transparency, equity, and fiscal discipline in TIF programs. It also identifies risks such as revenue volatility and misuse when TIF is not tightly aligned with planning and oversight.

- **"TOD Financial Analysis" (June 2020) by David Taussig and Associates (DTA)**: Commissioned by the State of Hawai'i Office of Planning and Sustainable Development, this study analyzed infrastructure needs and financing options for three TOD priority areas on O'ahu. It highlighted a hybrid approach to funding, noting both the benefits and limitations of tools like TIF, CFDs, and value capture strategies.

- **"BFS TIF Briefing" (May 2013)**: This internal analysis concluded that while TIF is theoretically viable, Honolulu's legal and fiscal environment limits its practical application. The report emphasized the sufficiency of existing City taxing powers and questioned the cost-benefit of adopting formal TIF districts.

- **"JLL Honolulu Value Capture Report" (2010)**: This early-stage evaluation presented value capture as a broader framework, with TIF as one of several tools, and raised the importance of aligning financing mechanisms with Honolulu's real estate context.

- **"Kaua'i CFD 2008-1 Special Tax Revenue Bonds"**: Served as a reference model of successful implementation of a CFD in Hawai'i. The CFD enabled infrastructure investment for the Kukui'ula resort-residential development on Kaua'i, using special tax bonds secured through property assessments.

- **"OPSD TOD Infrastructure Finance Strategy" (2023-2024)**: A current strategy document identifying a mix of tools needed to meet Hawai'i's housing and infrastructure goals, including TIF, CFDs, and revolving infrastructure funds.

- **"HI TOD Infrastructure Finance – Shortlist of Options" (2023)**: Summarized preferred financing tools for TOD infrastructure, favoring structures like CFDs for predictability and lower political risk.

- **"2024 Infrastructure Planning with Regional Investment: CFD, TIF, PACE" – OPSD and Partners:** This recent planning report emphasizes regionally integrated financing tools that align with public goals for housing and infrastructure. It compares CFDs, TIF, and PACE programs, concluding that CFDs—especially when combined with broader regional planning—offer the most flexible and legally robust option for near-term implementation in Hawai'i.

IV. Consideration of Alternatives: CFD and Synthetic TIF

The PIG examined alternative structures more suited to Honolulu's financial and geographic context:

- **Community Facilities District:** is a special taxing district that allows local governments to finance public infrastructure and services through the **levy of special taxes** on properties within a defined geographic area.
    - Allowed under current City law (Chapter 27, Revised Ordinances of Honolulu 2021).
    - Offers direct assessments on property owners within a district.
    - More constitutionally sound and already embedded in several TOD plans.
    - Potentially flexible, allowing upfront bonding and application to diverse infrastructure types including roads, drainage, and utilities.
    - Seen as particularly viable for areas like Iwilei, where the City already owns significant portions of land.

- **Synthetic TIF:** is a financing structure that **mimics the mechanics of traditional TIF** without formally creating a TIF district or requiring statutory or constitutional changes. Instead of capturing incremental tax revenues through a legally designated TIF district, the jurisdiction **allocates funds based on projected revenue increases** tied to a defined area and uses those projections to justify borrowing—typically through **general obligation (GO) bonds.**
    - May avoid some legal hurdles associated with traditional TIF.
    - Offers administrative simplicity but does not introduce new financing capacity; instead, it reprioritizes existing bonding authority.

➢ **Fiscal Considerations for Synthetic TIF:** The City's underwriters have not issued or marketed any synthetic TIFs to date. While the model offers administrative simplicity, several fiscal risks were identified:

- The City allocates bond funding through the CIP process, and carving out a portion for synthetic TIFs could reduce funding for other citywide needs.
- Honolulu must maintain low debt levels to preserve its AA+ credit rating.
- With rising costs for collective bargaining, transit, and other services, the City needs increased revenue for broader purposes—not just project-specific improvements.

V. Conclusion

After thorough analysis, the PIG concludes that while **TIF** is a viable tool in many mainland jurisdictions, its applicability in Honolulu is limited. Structural, legal, and fiscal constraints—such as early-stage revenue challenges, potential constitutional barriers, and the risk of diverting property tax revenues from the general fund—make TIF a less effective option for meeting Honolulu's current infrastructure financing needs.

In contrast, **CFDs** and other special assessment mechanisms offer a more adaptable, fiscally responsible, and legally sound alternative. CFDs are already authorized under City law, align well with existing planning efforts, and can be designed to support a broad range of infrastructure projects, including regional systems that extend beyond individual developments.

VI. Recommendations

- Prioritize the exploration and implementation of **CFDs** in key opportunity areas such as **Iwilei**, **Kapālama**, and **Hālawa**, where infrastructure needs are well defined and planning efforts are already underway.

- Incorporate **impact fees**, **public-private partnerships**, and, where appropriate, **synthetic TIF models** into a broader financing toolkit to ensure flexibility and resilience.

- Tie future financing strategies to **robust infrastructure modeling**, **master planning**, and **legal review** to ensure feasibility and alignment with policy goals.

- Continue to **monitor TIF legislation and pilot programs statewide** to stay informed of any changes that might improve TIF's viability in Honolulu's context.

- Develop **clear policy frameworks and administrative procedures** to support implementation of these financing tools in a transparent, consistent, and community-responsive manner.

By advancing more targeted and reliable financing mechanisms, the City can better support long-term infrastructure investment while maintaining fiscal integrity and accelerating progress on housing and economic development goals.