

Michael Williams
Chair



COST OF GOVERNMENT COMMISSION
COUNTY OF MAUI
2145 WELLS STREET, SUITE 303
WAILUKU, MAUI, HAWAII 96793

November 17, 2020

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OFFICE OF THE
COUNTY CLERK

Honorable Alice L. Lee, Chair
and Members of the Maui County Council
200 South High Street
Wailuku, Hawaii 96793

Dear Chair Lee and Members:

**SUBJECT: COST OF GOVERNMENT COMMISSION REPORT ON FINANCING OF
THE WAILUKU PARKING STRUCTURE**

The Cost of Government Commission is transmitting for your review its Report on the Financing of the Wailuku Parking Structure. The Report reviews the Federal Opportunity Zone tax incentive program and recommends that the County issue a Request for Proposals to determine whether there is any investor or investor group interested in constructing and operating the Wailuku Parking Structure for ten or more years as an Opportunity Zone investment.

The Commission requests that its report be referred to the Economic Development and Budget Committee for its consideration.

To further improve the Commission's effectiveness, we welcome your feedback on the report and would be happy to meet with you. Should you have any questions or comments, feel free to contact Michael Williams, Chair of the Commission, at (808) 264-4883, or Shelley Pellegrino, Technical Writer for the Commission, at (808) 344-3348. Thank you for your consideration.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael Williams", written over the word "Sincerely,".

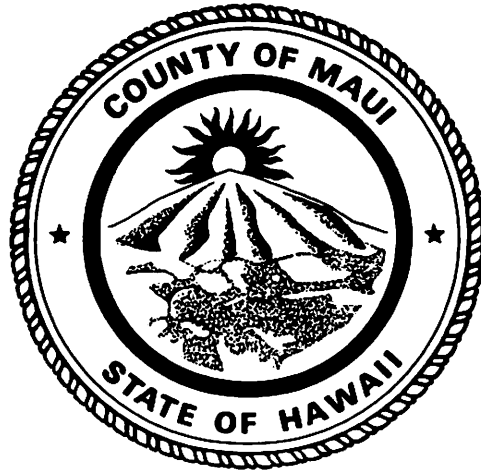
MICHAEL WILLIAMS
Chair

Attachment

cc: Gary Murai, Deputy Corporation Counsel

COUNTY COMMUNICATION NO. 20-596

COUNTY OF MAUI



COST OF GOVERNMENT COMMISSION

REPORT ON FINANCING OF THE WAILUKU PARKING STRUCTURE

November 2020

COST OF GOVERNMENT COMMISSION COUNTY OF MAUI

Report on Financing of the Wailuku Parking Structure

November 2020

*The Commission shall have the power and duty to:
Study and investigate the organizations and methods of operations of all departments,
commissions, boards, offices, and other instrumentality of all branches of the county government
and determine what changes, if any, may be desirable to accomplish the policy set forth herein.¹*

COMMISSIONERS

Michael Williams, Chair
Michelle Del Rosario, Vice Chair
Noemi Barbadillo, Member
Paula Heiskell, Member
Lu Ann Lankford-Faborito, Member
Patrick O'Neil, Member
Susan Pu, Member
Sarah Simmons, Member
Hannah Werth, Member

¹ Charter, County of Maui, Section 3-9.3 (2019)

COST OF GOVERNMENT COMMISSION

Report on Financing of the Wailuku Parking Structure

INTRODUCTION

At its regular meeting of February 20, 2020, the Cost of Government Commission authorized an investigation into the financing of the Wailuku Parking Structure, which is currently being financed as a County-owned project. Based on its investigation and analysis, the Commission recommends that the County solicit private financing, ownership, and management of the Wailuku Parking Structure. Specifically, the County should issue a Request for Proposals to determine whether there is any investor or investor group interested in constructing and operating the Wailuku Parking Structure for ten or more years as an Opportunity Zone investment.

WAILUKU PARKING STRUCTURE HISTORY

Construction of the Wailuku Parking Structure on the site of the Wailuku Civic Complex has long been a goal of the County Administration.¹ So far as the Commission has been able to discern, the County's plan has always been to finance, construct, and operate the parking garage as a County-owned project. It is an unusual project, because the County rarely owns and operates commercial buildings and businesses.

The County Council approved funding the project as a County-owned and operated commercial parking garage in its Fiscal Year 2019 budget, adopted in June 2018. The financing scheme was to use bond funds to pay for construction, and the fees from parking were expected to cover operating costs.

On December 27, 2019, the County awarded a contract for construction of the garage to Hawaiian Dredging Construction Company Inc., at a cost of \$30.2 million.² The 428-stall structure is part of Phase 1B. Phase 1A, to upgrade the underground utilities and the above-ground sidewalks and driveways, is currently underway.³ Vertical construction of the garage is set to begin in March 2021.⁴

¹ See "Wailuku Civic Complex Frequently Asked Questions" (March 27, 2019), p. 4, located at <https://www.mauicounty.gov/DocumentCenter/View/115203/Frequently-Asked-Questions-32719?bidId> (accessed on October 7, 2020).

² See Contract for Construction: Wailuku Civic Complex, Phase 1B for the Department of Management, (Contract No. C6969) (December 24, 2019), located at <https://www.mauicounty.gov/1766/Current-Awards> (accessed on October 7, 2020).

³ See Wailuku Live Construction Updates, located at <https://www.wailukulive.com/construction-updates> (accessed on October 7, 2020).

⁴ Michael Williams, Chair, Cost of Government Commission, telephone call with Erin Wade, Redevelopment Program Manager, Maui Redevelopment Agency, Department of Management, County of Maui, October 7, 2020.

Once construction of the parking garage is complete, the County plans to charge parking fees like a commercial garage would, sufficient to cover the cost of operating the business and maintaining the building.⁵ The County intends to contract with a private vendor to operate the garage.⁶

At the present time, the County must offer bond buyers a return on their investment of about 2% per year, or about \$600,000 each year in interest payments.

OPPORTUNITY ZONES

Congress passed the Tax Cuts and Jobs Act of 2017, which created a tax incentive program to encourage private investors to start up new businesses in economically depressed areas of the country called “Opportunity Zones.” Downtown Wailuku was designated an official Opportunity Zone by Governor David Ige in December 2018⁷, six months after the Council approved the administration’s financing scheme. The State Department of Business, Economic Development and Tourism (DBEDT), through its Business Development and Support Division, maintains a website and knowledgeable staff to assist counties and investors with taking advantage of this federal program.⁸

The Commission consulted with a professional financial adviser who provided an analysis of the federal tax savings that an investor with large capital gains likely could obtain by building and operating a parking garage business in the Wailuku Opportunity Zone. The Commission also contacted Mark Ritchie, Branch Chief, Business Support Branch, DBEDT. Mr. Ritchie suggested that the Commission contact Brent Parker, CPA, a principal in the Long Beach, California office of Novogradac & Company LLP, a large national investment firm that has significant experience with Opportunity Zone investments.

Mr. Parker confirmed that Governor Ige signed legislation in June 2019 to “conform” the State tax code to the Internal Revenue Code,⁹ a full year after the Council approved using County funds to finance the garage. This legislation “allows opportunity zones incentive investments to qualify for the same state tax benefits as federal benefits, although only

⁵ Department of Management, “4_6_DRAFT Wailuku Financial Modeling Workbook.” See Exhibit A.

⁶ See “Wailuku Civic Complex Frequently Asked Questions,” *supra* note 1, p. 11.

⁷ See “Opportunity Zones, tax incentives could aid redevelopment,” *The Maui News* (December 17, 2018), located at <https://www.mauinews.com/news/local-news/2018/12/opportunity-zones-tax-incentives-could-aid-redevelopment/> (accessed on October 7, 2020). See also Teena Rasmussen, Mayor’s Office of Economic Development, “Maui County Opportunity Zones” (July 2019), located at https://invest.hawaii.gov/oz/wp-content/uploads/sites/2/2019/07/county_of_mauai.pdf (accessed on October 7, 2020).

⁸ See Business and Support Division, Hawaii Department of Business, Economic Development, and Tourism, “Hawaii Opportunity Zones,” located at <https://invest.hawaii.gov/oz/> (accessed on October 7, 2020).

⁹ See Novogradac News and Analysis, “Governor Signs Bill Conforming Hawaii Tax Code to IRS” (June 13, 2019), located at <https://www.novoco.com/news/governor-signs-bill-conforming-hawaii-tax-code-irc> (accessed on October 7, 2020).

for OZ investments in Hawaii.”¹⁰ In other words, investors would receive the same benefits for state taxes as they do federal if they invest in or sell a property in a Hawaii Opportunity Zone. Furthermore, investors with capital gains to shelter in 46 of the 50 states can do the same, which means the County need not restrict its search for an Opportunity Zone investor to just this state.

Unfortunately, Novogradac’s policies would not allow Mr. Parker to do any further work on this project without a signed engagement letter with the COGC, including a commitment to pay a fee. The COGC has no budget for the retention of experts. The Finance Department can quickly determine if there are Opportunity Zone investors interested in this Maui business prospect, by retaining Novogradac or similar investment advisors.

BENEFITS OF OPPORTUNITY ZONE FINANCING FOR THE WAILUKU PARKING STRUCTURE

The Commission contends that the County could save \$5-6 million if it were to lease the land to an investor or qualified investment fund, transfer the construction contract to that investor, and have that investor own and operate the garage for at least ten years. Here’s why:

An Opportunity Zone investor with \$30+ million in capital gains from a recent sale of real estate agrees to build and operate the Wailuku Parking Garage on land leased from Maui County. The Opportunity Zone investor executes a 10-year lease of the land that includes a buy-back of the improvements by Maui County at the end of the lease. The County assigns the construction contract to the investor, and the investor builds and operates the garage for 10 years.

The Opportunity Zone investor has a 23.8% federal capital gains tax liability, or \$7.14 million, on the old gain of \$30 million, plus a state capital gains tax, depending on where he/she/it is domiciled. In Hawaii, this rate is 11%, or \$3.3 million. By investing these funds in an Opportunity Zone project and holding the Opportunity Zone asset for 10 years, a Hawaii-based investor eliminates the \$7.14 million federal capital gains tax liability and the state capital gains tax liability of \$3.3 million in Hawaii. So, the effective purchase cost to the investor is reduced from \$30 million to less than \$20 million.

Most commercial real estate is subject to a 39-year depreciation schedule, so over 10 years, the investor will depreciate the parking structure by \$7.7 million.

If Maui County were to agree to purchase the garage at the end of the lease for \$30 million, the County would benefit financially because it would not have had to expend the \$30 million up front and building a new garage in 10 years could cost \$40 million. The County gets its garage now and pays a fair price for it 10 years later.

The investor also benefits by saving the federal and state capital gains tax on the original \$30 million (\$10.44 million) AND saving the tax on recaptured depreciation. It is not

¹⁰ Id.

possible to estimate this additional tax savings precisely, because it depends on what the federal and state tax rates are ten years from now, but using today's rates, the investor would save 34.8% of the \$7.7 million of recaptured depreciation, or approximately \$2.6 million more. In total, the Hawaii-domiciled Opportunity Zone investor gains \$13 million. In addition, the investor has benefitted by \$770,000/year in depreciation tax shield for 10 years, for a grand total of \$20.7 million, or a 69.1% total return on its \$30 million investment. It is this large potential profit that should lead to bids by investors for this business opportunity.

There is one additional possible tax subsidy for the Opportunity Zone investor. If the investor could find a private buyer for the garage in 2031 who would pay more than \$30 million, the investor would save the additional capital gains tax on any sale price above \$30 million.

There are likely to be multiple investors who would compete for the chance at these gains, which means the County could maximize its benefit by issuing a Request for Proposals to build and operate the garage. It is possible some Opportunity Zone investors would be willing to accept less than the 69% return and agree to a resale price to the County of less than \$30 million.

How much money can the County save if it finds an Opportunity Zone investor to take over the construction, operation, and ownership of the Wailuku Parking Structure? If the County finances the construction contract with bonds, it will pay 2% in interest for the next ten years. On a \$30 million bond sale, the County would pay \$600,000 in the first year, and a slightly declining amount as the bond principal is paid back, just like the amortization on a home mortgage. The County saves the legal and accounting fees to issue the bonds, and it does not diminish its bonding capacity for other capital projects in the next ten years.

The County also saves the cost of having its employees oversee the management of the garage or having to pay a private management company to operate the garage. Over 10 years, that will be several hundred thousand dollars or more in additional savings to the County.

It is likely then that the County could save \$5-6 million or more by recruiting an Opportunity Zone investor to build, own, and operate the garage.¹¹

COUNTY'S INADEQUATE EVALUATION OF THE OPPORTUNITY ZONES OPTION

As far as the Commission has been able to determine, the Administration never considered or presented to the County Council the option of finding a private investor to finance, construct and manage the Wailuku Parking Garage after the Opportunity Zone federal subsidy was created in December 2017, after Wailuku was designated an Opportunity Zone in December 2018, and after the State's tax laws were changed in June 2019.

¹¹ Maybe a better alternative is to leave the garage in private hands indefinitely—the parking will still be available no matter who owns it.

The Commission corresponded with Managing Director Sandy Baz on two separate occasions to gather information about the Wailuku Parking Structure financing.¹² In his June 15, 2020 response, Director Baz recited a history of discussions with private developers about a partnership with the County on the garage, but those meetings were long before the federal and state Opportunity Zone tax subsidies were created, since they occurred before the County started its own design work on the garage.¹³ Mr. Baz stated that any private investor “would have to make enough revenue to cover the cost of construction, plus operations and maintenance, plus a profit. Our expectation is that the revenue generated from the garage will only be enough to cover the management and operations.”¹⁴ This statement misses the point; the profit needed by the private investor comes from the enormous tax subsidies, not garage revenue. These tax subsidies are not available to the County as an owner.

Managing Director Baz’s August 12, 2020 letter offers additional reasons for not seeking bids from private investors.¹⁵ First, he says asking for private bids will prolong the project.¹⁶ The Commission is not suggesting that construction be delayed, but only that ownership be transferred while construction continues.

Second, Mr. Baz says the public ownership model will allow the County to maintain control and flexibility over the use of the garage.¹⁷ The Commission contends, however, that whatever controls and flexibility the County wants can be set forth in the contract with the Opportunity Zone investor.

Finally, Mr. Baz argues that the cost to the County is low because bond interest rates are low. While this may be true, the Commission asserts that the County would pay zero interest if private capital is used—which is the point of Opportunity Zone tax subsidies.

The Commission concludes that the site of the Wailuku Parking Structure is known to be in an Opportunity Zone, and the Administration should carefully assess that option. Parking garages are operated as private businesses all around the world. Maui County should not automatically assume that government ownership and operation of such a business should be the first and/or only option.

¹² See Letter from Michael Williams, Chair, Cost of Government Commission, to Sandy Baz, Managing Director, Regarding “Use of Federal Opportunity Zone Tax Subsidies to Finance Wailuku Parking Structure” (May 12, 2020); Letter from Michael Williams, Chair, Cost of Government Commission, to Sandy Baz, Managing Director, Regarding “Use of Federal Opportunity Zone Tax Subsidies to Finance Wailuku Parking Structure” (August 3, 2020). See Exhibits B and C.

¹³ Letter from Sandy Baz, Managing Director, to Michael Williams, Chair, Cost of Government Commission, Regarding “March 2, 2020 Inquiry Email” (Opportunity Zone Federal Tax Subsidies for Wailuku Parking Garage) (June 20, 2020). See Exhibit D.

¹⁴ Id., p. 2.

¹⁵ Letter from Sandy Baz, Managing Director, to Michael Williams, Chair, Cost of Government Commission, Regarding “Use of Federal Opportunity Zone Tax Subsidies to Finance Wailuku Parking Structure” (August 12, 2020). See Exhibit E.

¹⁶ Id., p. 1.

¹⁷ Id., p. 2.

RECOMMENDATION

The Cost of Government Commission recommends that the County solicit bids for private financing, ownership, and management of the Wailuku Parking Structure. Specifically, the County should issue a Request for Proposals to determine whether there is any investor or investor group interested in constructing and operating the Wailuku Parking Structure for ten or more years as an Opportunity Zone investment.

**COST OF GOVERNMENT COMMISSION
WAILUKU PARKING STRUCTURE FINANCING**

LIST OF EXHIBITS

- Exhibit A Department of Management, "4_6_DRAFT Wailuku Financial Modeling Workbook"
- Exhibit B Letter from Michael Williams, Chair, Cost of Government Commission, to Sandy Baz, Managing Director, Regarding "Use of Federal Opportunity Zone Tax Subsidies to Finance Wailuku Parking Structure" (May 12, 2020)
- Exhibit C Letter from Michael Williams, Chair, Cost of Government Commission, to Sandy Baz, Managing Director, Regarding "Use of Federal Opportunity Zone Tax Subsidies to Finance Wailuku Parking Structure" (August 3, 2020)
- Exhibit D Letter from Sandy Baz, Managing Director, to Michael Williams, Chair, Cost of Government Commission, Regarding "March 2, 2020 Inquiry Email" (Opportunity Zone Federal Tax Subsidies for Wailuku Parking Garage) (June 20, 2020)
- Exhibit E Letter from Sandy Baz, Managing Director, to Michael Williams, Chair, Cost of Government Commission, Regarding "Use of Federal Opportunity Zone Tax Subsidies to Finance Wailuku Parking Structure" (August 12, 2020)

Exhibit A

Department of Management,
"4_6_DRAFT Wailuku Financial Modeling Workbook"

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Wailuku On-Street Summary of Costs

Equipment	Dual Space Meters*	Single Space Meters	Pay Stations
Quantity of Units**	27	0	22
Cost of Base Unit / Housing / Pole	\$1,350.00	\$1,000.00	\$8,500.00
Meter Warranty (applies Years 2 & 3)	\$100.00	\$50.00	\$450.00
Monthly Meter Software Fees - Per Unit	\$11.50	\$5.75	\$55.00
Monthly CC Processing Fees - Per Transaction	\$0.13	\$0.13	\$0.13
Estimated # of Credit Card Trans Per Unit / Per Day	6	3	17

Projected Cost

	Dual Space Meters	Single Space Meters	Pay Stations
Equipment Cost ***	\$36,450	\$0	\$187,000
Annual Estimated Software Fees	\$3,726	\$0	\$14,520
Annual Estimated Credit Card Transaction Fees	\$5,160	\$0	\$11,912
Annual Estimated Cost of Additional Spares & Misc ****	\$1,823	\$0	\$9,350
Subtotal Annual Operating Cost	\$10,708	\$0	\$35,782
Annual Warranty Cost (Year 2 and Onward)	\$2,700	\$0	\$9,900
Total Estimated Equipment and Operating Cost - Year 1	\$47,158	\$0	\$222,782
Total Estimated Equipment and Operating Cost - Years 1&2	\$60,566	\$0	\$268,464
Total Estimated Equipment and Operating Cost - Years 1,2&3	\$73,975	\$0	\$314,146
Total Estimated Equipment and Operating Cost - Years 1,2,3&4	\$87,383	\$0	\$359,828
Total Estimated Equipment and Operating Cost - Years 1,2,3,4&5	\$100,791	\$0	\$405,510

Combined Total

Annual Cost: Year 1	\$269,940
Years 1 & 2	\$329,030
Years 1, 2 & 3	\$388,120
Years 1, 2, 3 & 4	\$447,210
Years 1, 2, 3, 4 & 5	\$506,301

*Dual space meters have one meter head to serve two parking spaces vs. single space meters which may be dual-mounted on the same pole with a shared yoke.

**Estimated quantities are based on space counts by block. This model assumes dual-space for Market St (between Main and Vineyard) and pay stations for the remaining paid parking areas.

***Estimated equipment costs may not include freight, etc. All workbook pricing has been estimated. A quote should be obtained from a qualified Vendor for the most accurate and up to date costs.

****In order to account for some of the unforeseen misc. costs we have estimated 5% of the initial equipment expense as part of the annually on-going support costs. You will see this value represented in row 16 above.

Financial Modeling Workbook Instructions

This model is a baseline projection and should be used as a tool to estimate potential revenues and expenditures. The revenue worksheet enables the County to adjust the inputs to project several different scenarios. The model allows the County to set different parking rates and/or operating hours for on-street parking, shared school spaces, as well as off-street hourly and permit parking. Separate worksheets have been included to calculate on-street and off-street equipment and operating costs.

The cells in white are meant to remain relatively consistent, grey cells may require adjustment, and the blue cells should be reviewed and modified.

Equipment Types:

Dual Space Meters: single head meters on one pole with an interface that serves two spaces at a time.

Single Space Meters: single head meters, each meant to serve one space. These may be dual-mounted on the same pole using an additional piece of hardware called a yoke. When dual-mounting, the cost savings from the poles is similar to the added cost of the yoke. Therefore, when forecasting dual-mounted single-space meters, simply double the amount of single-space meters in the workbook.

Pay Stations (Multi-Space Meters): pay stations normally serve 7 to 12 on-street spaces, and a typical surface lot requires 1 to 4 pay stations depending upon the configuration and number of access points.

The variables included and how each of the inputs can be changed is explained below:

Revenue Projection Variables:Hourly Rate

The County can adjust the rate per hour as required. We have included a drop-down arrow which allows for the selection of a rate between \$1.00 - \$5.50 in twenty-five cent increments.

Operating Days Per Year

The Operating Days Per Year represent the number of days in the year when parking rates will be enforced.

Hours of Operation

The model is based on the County enforcing from the hours of 9am-5pm. We have also included a drop-down selection so the County can adjust the enforcement start and end time as required.

Compliance Percentage

The Compliance Percentage value represents the estimated percentage of people who will comply and pay for parking as mandated by the law. The percentage can be adjusted as required.

Average Daily Occupancy

This value represents the average percent of spaces that are occupied throughout the day during the operating hours, which is based on collected occupancy data.

Low-Income Rate

Employees with an annual income below a specified threshold could be eligible for a reduced permit rate.

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Wailuku Financial Dashboard

Year 1	On-Street	Off-Street	Total
Projected Revenue	\$209,916.00	\$164,210.62	\$374,126.62
Estimated Equipment and Operating Costs	\$269,940.10	\$256,976.20	\$526,916.30
Net Gain/Loss	-\$60,024.10	-\$92,765.58	-\$152,789.68
Year 2	On-Street	Off-Street	Total
Cumulative Projected Revenue	\$419,832.00	\$328,421.24	\$748,253.24
Cumulative Estimated Equipment and Operating Costs	\$329,030.20	\$260,126.20	\$589,156.40
Cumulative Net Gain/Loss	\$90,801.80	\$68,295.04	\$159,096.84
Year 3	On-Street	Off-Street	Total
Cumulative Projected Revenue	\$629,748.00	\$492,631.86	\$1,122,379.86
Cumulative Estimated Equipment and Operating Costs	\$388,120.30	\$263,276.20	\$651,396.50
Cumulative Net Gain/Loss	\$241,627.70	\$229,355.66	\$470,983.36
Year 4	On-Street	Off-Street	Total
Cumulative Projected Revenue	\$839,664.00	\$656,842.48	\$1,496,506.48
Cumulative Estimated Equipment and Operating Costs	\$447,210.40	\$266,426.20	\$713,636.60
Cumulative Net Gain/Loss	\$392,453.60	\$390,416.28	\$782,869.88
Year 5	On-Street	Off-Street	Total
Cumulative Projected Revenue	\$1,049,580.00	\$821,053.10	\$1,870,633.10
Cumulative Estimated Equipment and Operating Costs	\$506,300.50	\$269,576.20	\$775,876.70
Cumulative Net Gain/Loss	\$543,279.50	\$551,476.90	\$1,094,756.40

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Wailuku On-Street Paid Parking Revenue Projections

Location	On-Street Hourly Spaces		
Hourly Rate	\$1.00		
Spaces*	255		
Annual Operating Days	Year-Round		
	245		
Daily Operating Hours	Hours	Start Time	End Time
	8	9:00 AM	5:00 PM
Compliance Rate	60%		
Average Daily Occupancy**	70%		

On-Street Projected Revenue Summary

On-Street Hourly Spaces

Annual Revenue: Year 1	\$209,916.00
Years 1 & 2	\$419,832.00
Years 1, 2, & 3	\$629,748.00
Years 1, 2, 3 & 4	\$839,664.00
Years 1, 2, 3, 4 & 5	\$1,049,580.00

**Assuming paid parking at all current time limited locations, with the addition of High Street between Main and Vineyard, Vineyard Street between Market and Central*

***This value is the average daily occupancy for the proposed paid parking zones*

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Wailuku Off-Street Street Space Allocations

Location	Civic Hub Garage	Vineyard Street Lot	County Public Lot	Wells Park Lot	Tennis Court Lot	Remote Location
Number of Lot Spaces	428	16	28	14	34	0
Percent Permit Spaces*	25%	0%	0%	0%	0%	0%

Off-Street Hourly Parking Revenue Projections

Location	Civic Hub Garage			Vineyard Street Lot			County Public Lot			Wells Park Lot			Tennis Court Lot			Remote Location		
Hourly Rate	\$0.50			\$0.50			\$0.50			\$0.00			\$0.00			\$0.00		
Number of Hourly Spaces	253			16			28			14			34			0		
Operating Days per Year	245			245			245			245			245			245		
Operating Hours	Hours	Start Time	End Time	Hours	Start Time	End Time	Hours	Start Time	End Time	Hours	Start Time	End Time	Hours	Start Time	End Time	Hours	Start Time	End Time
	8	9:00 AM	5:00 PM	8	9:00 AM	5:00 PM	8	9:00 AM	5:00 PM	8	9:00 AM	5:00 PM	8	9:00 AM	5:00 PM	8	9:00 AM	5:00 PM
Compliance Percentage**	95%			60%			60%			60%			60%			60%		
Average Daily Occupancy***	34%			69%			57%			63%			13%			0%		

Permit Parking Revenue Projections

Location	Civic Hub Garage	Vineyard Street Lot	County Public Lot	Wells Park Lot	Tennis Court Lot	Remote Location
Monthly Rate	\$40.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Low-income Rate	\$10.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Number of Permit Spaces	175	0	0	0	0	0
Percent Low-income Permits	25%	25%	25%	25%	25%	25%

Off-Street Revenue Projections

Off-Street Hourly Spaces	Civic Hub Garage	Vineyard Street Lot	County Public Lot	Wells Park Lot	Tennis Court Lot	Remote Location
Annual Revenue: Year 1	\$80,084.62	\$6,491.52	\$9,384.48	\$0.00	\$0.00	\$0.00
Years 1 & 2	\$160,169.24	\$12,983.04	\$18,768.96	\$0.00	\$0.00	\$0.00
Years 1, 2, & 3	\$240,253.86	\$19,474.56	\$28,153.44	\$0.00	\$0.00	\$0.00
Years 1, 2, 3 & 4	\$320,338.48	\$25,966.08	\$37,537.92	\$0.00	\$0.00	\$0.00
Years 1, 2, 3, 4 & 5	\$400,423.10	\$32,457.60	\$46,922.40	\$0.00	\$0.00	\$0.00
Off-Street Permit Spaces	Civic Hub Garage	Vineyard Street Lot	County Public Lot	Wells Park Lot	Tennis Court Lot	Remote Location
Annual Revenue: Year 1	\$68,250.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Years 1 & 2	\$136,500.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Years 1, 2, & 3	\$204,750.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Years 1, 2, 3 & 4	\$273,000.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Years 1, 2, 3, 4 & 5	\$341,250.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Combined Total	Civic Hub Garage	Vineyard Street Lot	County Public Lot	Wells Park Lot	Tennis Court Lot	Remote Location
Annual Revenue: Year 1	\$164,210.62	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Years 1 & 2	\$328,421.24	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Years 1, 2, & 3	\$492,631.86	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Years 1, 2, 3 & 4	\$656,842.48	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Years 1, 2, 3, 4 & 5	\$821,053.10	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00

253

*The percent of spaces allocated for permit parking will be dependent on whether the County implements a remote parking location for employee parking
 **95% compliance rate assumed for the Civic Hub Garage because it will be gated
 ***Civic Hub occupancy rate is based on the current occupancy rate with the post-construction inventory

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Wailuku Off-Street Summary of Costs: Pay Stations

	Civic Hub Garage	Vineyard Street Lot	County Public Lot	Wells Park Lot	Tennis Court Lot	Remote Location
Equipment Type	PARCS (Gated)	Pay Stations	Pay Stations	Pay Stations	Pay Stations	Pay Stations
Access Points (Ingress/Egress) / Qty of Units	4	2	5	0	0	0
Ingress/Egress Equipment Cost / Pay Station Cost	\$27,500	\$8,500	\$8,500	\$8,500	\$8,500	\$8,500
Pay on Foot Equip - Credit Card Only (\$19,000/unit)	3	NA	NA	NA	NA	NA
Pay on Foot Equip with Bill Nete Acceptor (\$34,000/unit)	0	NA	NA	NA	NA	NA
Annual Software Fee - Per Acces Point / Unit	\$3,077	\$650	\$650	\$650	\$650	\$650
Warranty	NA	\$450	\$450	\$450	\$450	\$450
Monthly Credit Card Processing Fees - Per Transaction	NA	\$0.13	\$0.13	\$0.13	\$0.13	\$0.13
Estaimted Number of Credit Card Transactions Per Unit / Per Day	NA	11	10	0	0	0

Projected Cost

	Civic Hub Garage	Vineyard Street Lot	County Public Lot	Wells Park Lot	Tennis Court Lot	Remote Location
Equipment Cost*	\$167,000	\$17,000	\$42,500	\$0	\$0	\$0
Estimated Software Fees - Year 1	\$12,308	\$1,300	\$3,250	\$0	\$0	\$0
Estimated Credit Card Transaction Fees - Year 1	NA	\$701	\$1,593	\$0	\$0	\$0
Estimated Cost of Additional Spares & Misc - Year 1**	\$8,350	\$850	\$2,125	\$0	\$0	\$0
Subtotal Operating Cost	\$20,658	\$2,851	\$6,968	\$0	\$0	\$0
Total	\$187,658	\$19,851	\$49,468	\$0	\$0	\$0
Warranty Cost Per Year	Included	\$900	\$2,250	\$0	\$0	\$0

Combined Total

Combined Total Estimated Equipment and Operating Cost - Year 1	\$256,976
Combined Total Estimated Equipment and Operating Cost - Years 1&2	\$260,126
Combined Total Estimated Equipment and Operating Cost - Years 1,2&3	\$263,276
Combined Total Estimated Equipment and Operating Cost - Years 1,2,3&4	\$266,426
Combined Total Estimated Equipment and Operating Cost - Years 1,2,3,4&5	\$269,576

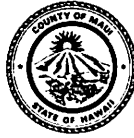
*All workbook pricing has been estimated. A quote should be obtained from a qualified Vendor for the most accurate and up to date costs.

**In order to account for some of the unforeseen misc. costs we have estimated 5% of the initial equipment expense as part of the annually on-going support costs. You will see this value represented in row 19 above.

Exhibit B

**Letter from Michael Williams, Chair, Cost of Government Commission,
to Sandy Baz, Managing Director,
Regarding “Use of Federal Opportunity Zone Tax Subsidies to Finance
Wailuku Parking Structure” (May 12, 2020)**

Michael Williams, Chair



COST OF GOVERNMENT COMMISSION

COUNTY OF MAUI
2145 WELLS STREET, SUITE 303
WAILUKU, MAUI, HAWAII 96793

May 12, 2020

Sandy K. Baz, Managing Director
County of Maui
200 South High Street
Wailuku, HI 96793

Aloha Mr. Baz:

**SUBJECT: USE OF FEDERAL OPPORTUNITY ZONE TAX SUBSIDIES TO
FINANCE WAILUKU PARKING STRUCTURE**

At its February 20, 2020 meeting, the Cost of Government Commission (COGC) voted 9-0 to authorize me, as Chair, to inquire into this question: Given the creation of Opportunity Zone Federal tax subsidies for private investments in Wailuku by the 2017 Federal Tax Cuts and Jobs Act, wouldn't the County save money by having the garage financed and owned by private investors?

On March 2, I sent an email to you and Director Scott Teruya, with my initial questions and document requests. A copy of that email is attached to this letter. So far as I am aware, the Administration has not responded to that email. On Monday morning, May 11, I left a voicemail at your office asking for a discussion of this inquiry. As far as I am aware, no one has returned that call.

Since sending the March 2 email, I have learned that the County has signed a construction contract for the parking structure with Hawaiian Dredging Construction Co. Inc., and that the first construction for the project is not slated to start until at least December 2020.

On behalf of the Cost of Government Commission, I request a telephone conference, or telemeeting, with the persons in the Administration who can answer these initial questions:

1. Has the County done any analysis of the tax savings that would accrue to a private investor who would finance, own, and operate that parking structure because of the Opportunity Zone tax subsidies? If yes, identify the person who performed that analysis and provide any written documents describing it. If no, please explain why not.
2. What is the expected cost to the County of constructing the structure? Please provide copies of the documents showing this.

3. If the County is planning to finance the construction with bonds, what is the projected amount the County plans to borrow and what is the payoff schedule of principal and interest on the bonds? Please provide the budget documents that reflect these costs.
4. How much will the County pay in legal fees or other costs associated with issuing the bonds?
5. What is the expected cost of operating the structure? Please provide copies of documents analyzing this question.
6. What is the expected revenue stream from the fees charged for parking?
7. What are the expected maintenance costs of the structure over its useful lifetime?
8. Please provide a copy of the construction contract.
9. Please provide a copy of the construction management contract the County has for the structure.
10. What plans does the County have to provide free or reduced-price parking for County employees?
11. To the extent the County wants to provide free or reduced-price parking to its employees, why couldn't it write such conditions into the new Request for Proposals (RFP) for a privately owned garage?
12. What objections or obstacles would prevent the County from issuing an RFP to private investors to take over the construction contract, ownership, and management of the structure for at least ten years?

Mahalo for your attention to these questions and requests for documents.

Sincerely,

MICHAEL WILLIAMS
Chair

Attachment

cc: Scott Teruya, Director of Finance
Lance Taguchi, County Auditor

From: Michael Williams

Sent: Monday, March 2, 2020 1:25 PM

To: Sandy Baz <Sandy.Baz@co.maui.hi.us>; scott.teruya@co.maui.hi.us

Subject: Cost Of Government Commission inquiry: why not build the Wailuku Parking Garage with private capital?

Aloha, Sandy and Scott. This email is an official communication from the Cost of Government Commission. At its February 20 meeting, the COGC voted 9-0 to authorize me, as Chair, to inquire into this question: Given the creation of Opportunity Zone federal tax subsidies for private investments in Wailuku by the 2017 federal Tax Cuts and Jobs Act, wouldn't the county save money by having the garage built by private investors?

Opportunity zones are designed to spur economic development by providing tax benefits to investors. If the investor holds the investment in the Opportunity Fund for at least ten years, the investor is eligible for an increase in basis of the QOF investment equal to its fair market value on the date that the QOF investment is sold or exchanged. If the garage will cost \$20 million to build, and if the investor has \$20 million in capital gains to shelter, then after ten years the investor saves 20% or \$4 million dollars. In effect, the federal government will provide a \$4 million subsidy to the cost of the garage, and the County avoids having to use \$20 million of its bonding capacity.

Here is the basic question for the County: If it will take \$20 million in capital funds to build the garage, isn't it true that a private developer can take advantage of the federal tax subsidy to reduce the effective cost of the structure by the amount of the subsidy, while the County using its own capital cannot?

To the extent the County wants to provide free or reduced-price parking to its employees, why couldn't it write such conditions into the new RFP for a privately owned garage?

I would like to meet with someone in the county administration to discuss these questions, but first, I ask that you provide the Commission with the following documents:

1. The RFP issued by the County for construction firms to bid on the contract to build the garage.
2. The winning proposal.
3. Any contracts signed by the County with the winning contractor concerning the garage construction.
4. Any projections the County has made of the cost of operating the garage for the first ten years.
5. Any projections the county has made of the cost of maintaining the garage in its first ten year of use.
6. Any projection the County has made of the revenues that will be generated by parking fees from garage users.
7. Any plans the County has to provide free or reduced-price parking for County employees.
8. Documents reflecting the likely date when construction of the garage will begin under the current plan.

If it would help to have a phone call to clarify these document requests, please call me anytime at 808-264-4884.

Mahalo for your attention to this inquiry.

Michael Williams, Chair, Cost of Government Commission

Exhibit C

Letter from Michael Williams, Chair, Cost of Government Commission,
to Sandy Baz, Managing Director,
Regarding "Use of Federal Opportunity Zone Tax Subsidies to Finance
Wailuku Parking Structure" (August 3, 2020)



COST OF GOVERNMENT COMMISSION

COUNTY OF MAUI
2145 WELLS STREET, SUITE 303
WAILUKU, MAUI, HAWAII 96793

August 3, 2020

Sandy K. Baz, Managing Director
County of Maui
200 South High Street
Wailuku, HI 96793

Aloha Mr. Baz:

**SUBJECT: USE OF FEDERAL OPPORTUNITY ZONE TAX SUBSIDIES TO
FINANCE WAILUKU PARKING STRUCTURE**

Mahalo for your June 15, 2020 letter, responding to my first inquiry email of March 20, 2020, and then my formal follow-up letter of May 12, 2020, and for compiling and sending the contract documents we requested.

After reviewing your response, I conducted some further investigation.

I consulted a friend, Trip Lynch, who is a professional financial adviser to investors, and who is familiar with the federal tax subsidies available to owners of commercial buildings. He provided me with an analysis of the likely federal tax savings an investor with large capital gains could obtain by building and operating a parking garage business in the Wailuku Opportunity Zone (OZ). However, he was not able to tell me if Hawaii-based investors could avoid state capital gains taxes in addition to the federal OZ tax subsidies.

I spoke with Mark Ritchie, Branch Chief, Business Support Branch, Hawaii Department of Business, Economic Development and Tourism, 808-587-2785, and explained the situation. He suggested I contact Brent Parker, CPA, a principal in the Long Beach, California, office of Novogradac & Company LLP, a large national investment firm that has significant experience with Opportunity Zone investments.

When I called Mr. Parker, he checked their master data base, and confirmed Hawaii changed its capital gains tax rules last year to "conform" them to the federal rules. In fact, investors with capital gains to shelter in 46 of the 50 states can do the same, which means the County need not restrict its search for an OZ investor just in this state.

What follows is a summary of what I have learned.

Based on conversations with financial experts, I believe the County could save \$5–6 million over the next ten years were it to lease the land to an investor or qualified investment fund, transfer the construction contract to that investor, and have that investor own and operate the garage for ten years. Here's why:

An Opportunity Zone investor with \$30+ million in capital gains from a recent sale of real estate agrees to build and operate a parking garage in Wailuku on land leased from Maui County. The OZ investor executes a 10-year lease of the land that includes a buy-back of the improvements by Maui County at the end of the lease. The County assigns the construction contract to the investor, and the investor builds and operates the garage for 10 years.

Our OZ investor has a 23.8% federal capital gains tax liability, or \$7.14 million, on the old gain of \$30 million, plus a state capital gains tax, depending on where he/she/it is domiciled. In Hawaii, this rate is 11%, or \$3.3 million. By investing these funds in an OZ project and holding the OZ asset for 10 years, a Hawaii-based OZ investor eliminates the \$7.14 million federal capital gains tax liability and the state capital gains tax liability of \$3.3 million in Hawaii. So, the effective purchase cost to the investor is reduced from \$30 million to less than \$20 million.

Under the current plan, the County intends to charge a fair market rate for the parking slots. As you state in your letter, "the revenue generated by the garage will be enough to cover management and operations" costs.

There are additional tax advantages to the private owner of the garage business that are not available to a County-owned business: Non-cash expenses, mainly depreciation, are useful to the OZ investor to offset other portfolio income. Most commercial real estate is subject to a 27½-year depreciation schedule, so over 10 years our investor will depreciate the parking structure by \$10.9 million.

Let's say Maui County agrees to purchase the garage at the end of the lease for \$30 million — a great deal for the County, as it did not have to lay out the \$30 million up front, and building a new one in 10 years would cost \$40 million. The County gets its garage now and pays a fair price for it 10 years later.

Our investor saves the federal and state capital gains tax on the original \$30 million (\$10.44 million) AND saves the tax on recaptured depreciation (\$2.6 million). In total, the Hawaii-domiciled OZ investor gains \$13 million. PLUS, the investor has benefitted from over \$1 million per year in depreciation tax shield for 10 years. Grand total: \$24 million, or a 79.8% total return on his \$30 million investment.

There are likely to be multiple investors who would compete for the chance at these gains, which means the County would get the best deal by issuing a Request for Proposals to build and operate the garage.

How much money can the County save if it finds an Opportunity Zone investor to take over the construction, operation, and ownership of the Wailuku Parking Structure? If the County finances the construction contract with bonds, it will pay 2.25% in interest for the next ten years. On a \$30 million dollar bond sale, the County would pay \$675,000 in the first year, and a slightly declining amount as the bond principal is paid back, just like the amortization on a home mortgage. The County saves the legal and accounting fees to issue the bonds, and it does not diminish its bonding capacity for other capital projects in the next ten years.

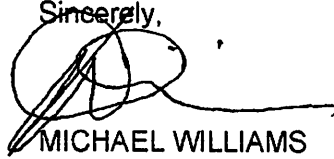
The County also saves the cost of having its employees oversee the management of the garage or having to pay a private management company to operate the garage. Over 10 years, that will be several hundred thousand dollars or more in additional savings to the County.

It is likely then that the County could save \$5–6 million or more by recruiting an Opportunity Zone investor to build, own, and operate the garage.

I respectfully request that you and your financial people take a second look at this. I will wait for your response before asking the Cost of Government Commission to issue a report on this investigation. Our next meeting (via BlueJeans) is on Thursday, August 13. If we could have your response by then, I would appreciate it.

Again, mahalo for your cooperation in this inquiry.

Sincerely,

A handwritten signature in black ink, consisting of several overlapping loops and a long horizontal stroke extending to the right.

MICHAEL WILLIAMS
Chair

cc: Scott Teruya, Director of Finance
Gary Murai, Deputy Corporation Counsel
Lance Taguchi, County Auditor

Exhibit D

Letter from Sandy Baz, Managing Director,
to Michael Williams, Chair, Cost of Government Commission,
Regarding "March 2, 2020 Inquiry Email" (Opportunity Zone Federal Tax
Subsidies for Wailuku Parking Garage) (June 20, 2020)

MICHAEL P. VICTORINO
Mayor

SANDY K. BAZ
Managing Director

JOSIAH K. NISHITA
Deputy Managing Director



DEPARTMENT OF MANAGEMENT
COUNTY OF MAUI
200 SOUTH HIGH STREET
WAILUKU, MAUI, HAWAII 96793

June 15, 2020

Honorable Michael P. Victorino
Mayor, County of Maui
200 South High Street
Wailuku, Hawaii 96793

For Transmittal to:

Michael Williams, Chair
Cost of Government Commission
Maui County Council
200 South High Street
Wailuku, HI 96793

APPROVED FOR TRANSMITTAL



Mayor Date

Dear Mr. Williams:

SUBJECT: March 2, 2020 Inquiry Email

Thank you for your email dated March 2, 2020 requesting information to the following questions:

1. **Given the creation of Opportunity Zone federal tax subsidies for private investments in Wailuku by the 2017 federal Tax Cuts and Jobs Act, wouldn't the county save money by having the garage built by private investors?**

Opportunity Zones have been touted as an investment tool intended to revitalize economically distressed neighborhoods, and for the right types of projects, this is true. It is important to understand at the outset that Opportunity Zones are essentially a tax shelter mechanism for capital gains. Therefore, those investing money into Opportunity Zone projects expect to get that money back without capital gains penalties.. To do this an investor would have to sell their interest when the benefits of the Opportunity Zone expire in 10 years.

Prior to County beginning its own design work on the parking structure, staff meet with multiple companies managing and operating parking facilities throughout the State to determine a public-private partnership where the

County provides the land and the parking company builds, operates and maintains the structure. There was no situation where the capital investment required to build the parking structure could be covered by parking revenue alone. Similar for an OZ investor wanting to sell their interest in the asset,, the garage would have to make enough revenue to cover the cost of construction, plus operations and maintenance, plus a profit. Our expectation is that the revenue generated from the garage will only be enough to cover the management and operations.

As a result, building the parking structure would not make sense for a private sector developer unless it was a means to getting something else that would be profitable for them, such as a large scale development. However, the lot sizes in the district are too small, the zoning is too low-density, and the property ownership is too diverse for a development of the scale that could off-set the cost of the parking structure. The only party that stands to gain financially from the parking is the County who will benefit from the increased tax base of the collective

Currently buildings cannot be improved, uses cannot change and housing cannot be added to the area because the minimum parking requirements cannot be met. However, once the parking structure is built:

- Historic buildings can be preserved and adaptively reused
- Housing units can be restored above retail shops
- Restaurants can expand seating areas
- Ground floor office can convert to retail use giving more local vendors opportunities to bring products to market
- New, small-scale multi-family projects can be added to the district

Any of the projects listed above would be good candidates for OZ funding.

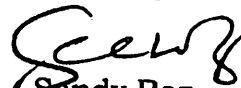
2. **Request for documents:**

- 1. The RFP issued by the County for construction firms to bid on the contract to build the garage.** Please find on included CD.
- 2. The winning proposal.** Please find on included CD.
- 3. Any contracts signed by the County with the winning contractor concerning the garage construction.** Please find on included CD
- 4. Any projections the County has made of the cost of operating the garage for the first ten years.** Please find on included CD
- 5. Any projects the county has made of the cost of maintain the garage in its first ten years.** The County will be soliciting for a reserve study to be completed for the parking structure. This number is not yet known with specificity but it is estimated the maintenance will be approximately \$250,000 in the first ten years.

6. **Any projections the county has made of the revenues that will be generated by parking fees from garage users.** Please find on included CD
7. **Any plans the County has to provide free or reduced price parking for County employees.** The County does not plan to offer employees free or discounted parking. County employees pay for County provided parking in all Wailuku campus locations.
8. **Documents reflecting the likely date when construction of the garage will begin under the current plan.** Please find the most recent project newsletter including the current project schedule attached for your information.

Please do not hesitate to contact me with additional questions or thoughts.

Sincerely,



Sandy Baz

Managing Director

Exhibit E

Letter from Sandy Baz, Managing Director,
to Michael Williams, Chair, Cost of Government Commission,
Regarding "Use of Federal Opportunity Zone Tax Subsidies
to Finance Wailuku Parking Structure" (August 12, 2020)

MICHAEL P. VICTORINO
Mayor

SANDY K. BAZ
Managing Director

JOSIAH K. NISHITA
Deputy Managing Director



DEPARTMENT OF MANAGEMENT
COUNTY OF MAUI
200 SOUTH HIGH STREET
WAILUKU, MAUI, HAWAII 96793

August 12, 2020

Honorable Michael P. Victorino
Mayor, County of Maui
200 South High Street
Wailuku, Hawaii 96793

For Transmittal to:

Michael Williams, Chair
Cost of Government Commission
Maui County Council
200 South High Street
Wailuku, HI 96793

APPROVED FOR TRANSMITTAL

Michael P Victorino 8/14/20

Mayor Date

Dear Mr. Williams:

SUBJECT: USE OF FEDERAL OPPORTUNITY ZONE TAX SUBSIDIES TO FINANCE WAILUKU PARKING STRUCTURE

Thank you for your letter dated August 3, 2020 requesting further information regarding the Wailuku Parking Structure. Per the County's financial advisors of PFM Financial Advisors LLC:

In evaluating funding infrastructure, it is important to view the full spectrum of alternatives – public private partnerships as well as traditional public sale alternatives. Public private partnerships require a significant amount of time to canvas interested parties through a formal solicitation process and negotiate appropriate terms and conditions. In general, public private partnerships work effectively when there is a benefit both to the public entity and the private entity.

In terms of the example laid out, there is a potential tax benefit to the Opportunity Zone (OZ) investor but minimal benefit to the County for the significantly longer timeline and more challenging process when compared with the public alternative. As had been mentioned in the finance team's prior response, these types of public partnerships are effective for more broad real estate development projects (mixed use developments) in which the private developer can gain a profit and the County may gain a benefit (public improvements and increased property tax revenues or sales tax revenues for example) from the type/scope of development.


It is clear that investments in OZs provide tax incentives; however, as reflected in the example, it is a complex mechanism that has created a barrier for entry for investors.

In addition to tax incentives, investors typically require a return on their investment above the original cost of the infrastructure development which would increase the purchase cost for the County.

With the public ownership model, the County maintains full control over the parking garage and maintains maximum flexibility to change or adapt uses based on the broader community need and overall County planning objectives. The County is able to quickly mobilize and construct the garage in a timely manner. By issuing long-term debt for the garage, the County is deferring the payment for the garage in a similar manner as the buy-back requirement from the OZ investor, and at very cost effective interest rates in the current market. The County would still likely need to issue long-term bonds to pay the OZ investor for the garage improvements in ten years, so there is no cost savings, just a cost deferral. OZ investors still have opportunities to invest in the residential and commercial improvements outlined in the initial response, which is likely where OZ investments were intended.

Should you have any additional questions, please do not hesitate to contact me directly or Finance Director Scott Teruya at scott.teruya@mauicounty.gov.

Sincerely,



Digitally signed by
Sananda K. Baz
Date: 2020.08.13
23:19:33 -10'00'

Sandy Baz
Managing Director