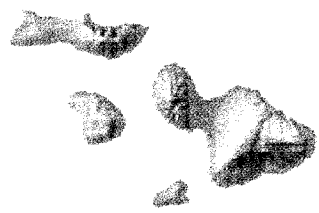
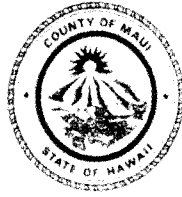


MICHAEL P. VICTORINO
Mayor

SCOTT K. TERUYA
Director

MAY-ANNE A. ALIBIN
Deputy Director



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

August 16, 2021

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

APPROVED FOR TRANSMITTAL

Michael Victorino 8/16/21

Mayor Date

For Transmittal to:

Honorable Gabe Johnson
Chair, Affordable Housing Committee
Maui County Council
200 South High Street
Wailuku, Hawaii 96793

Dear Chair Johnson:

**SUBJECT: COMPREHENSIVE AFFORDABLE HOUSING PLAN
(CONTRACT C7183; HAWAIIAN COMMUNITY ASSETS,
INC.) (AH-14)**

Pursuant to your letter dated July 27, 2021, relating to the Comprehensive Affordable Housing Plan (Contract C7183; Hawaiian Community Assets, Inc., please see our response below:

1. May I please request the Department's analysis of the feasibility of this recommendation, including the general steps required for possible implementation and any potential obstacles or limitations, broken down by type and purpose of bond.

Response: Please refer to attached memorandums from PFM Financial Advisors, LLC (herein referred as "PFM") and Katten Muchin Rosenman, LLP (herein referred as "Katten") relating to the subject matter above. PFM is the County's municipal advisor and Katten is the County's 2021 general obligations bond and disclosure counsel.

OFFICE OF THE
COUNTY CLERK
2021 AUG 16 PM 11:21
RECEIVED

Honorable Gabe Johnson
Chair, Affordable Housing Committee
August 16, 2021
Page 2

Should you have any questions, please feel free to contact me at extension no. 7474 or Deputy Director May-Anne Alibin at extension no. 7475.

Sincerely,



sw SCOTT K. TERUYA
Director of Finance

Attachments

SKT/maa



August 9, 2021

Memorandum

To: Scott Teruya and May-Anne Alibin
County of Maui
Department of Finance

From: Christine Choi, Brian Gallucci, and Mudra Patel
PFM Financial Advisors LLC

RE: July 28, 2021 County Council Memo: Comprehensive Affordable Housing Plan

In connection with the Maui County Comprehensive Affordable Housing Plan (the Plan) dated June 2021, the Plan states the following:

“The county has a triple-A bond rating and a dedicated source of real property tax funds into the Affordable Housing Fund could allow for the sale of bonds to pay for off-site infrastructure, target affordability of homes with project-based grants and subsidies to individual renters and homebuyers, and bring certainty to the planning and development process.”

As municipal advisor to the County of Maui, PFM Financial Advisors LLC (PFM) reviews the finding and provides a brief overview of potential bond financing options and associated implications. The two most common forms of financing for affordable housing include General Obligation Bonds and Revenue Bonds.

The County may consider using the County’s existing General Obligation Bond (GO Bond) program. The County’s GO Bonds are backed by the full faith and credit of the County – this category of bonds holds the strongest credit ratings (Aa1/AA+/AA+) and corresponding lowest borrowing rates available to the County. The County would need to raise taxes, elect to not fund other projects (reduce the capital plan), or face credit pressure from overleveraging. Lower credit ratings directly correspond to higher borrowing rates which in turn places additional pressure on tax rates. In addition to credit considerations, the County has legal debt capacity limits (15% of assessed valuation or \$7.8 billion as of January 1, 2021) that limit the County’s GO Bond debt (although, the County is well below the legal limitation). The County’s GO Bond program is critical to funding capital plan project needs on



an ongoing basis. The County must carefully consider the credit and administrative implications of expanding its GO Bond program to cover a broader range of uses.

Alternatively, the County may consider creating a new bond program with a specific pledge of revenues. A revenue bond program could be backed by property tax revenues, either on a limited or unlimited (GO basis) – the latter would be treated similarly to the County's GO Bonds. Revenue bonds are generally of lower credit quality than the County's GO Bond program given that the revenues are likely to have an explicit or implicit cap and property taxes are considered a strong, stable, dedicated revenue source with resident prioritization of payment of taxes over other discretionary expenses. As such, revenue bonds have higher borrowing rates. Credit quality for these types of bonds often correlate with the amount of revenues available to pay debt service on the revenue bonds (coverage ratios). With a weaker pledge and narrower stream of available revenues to pay debt service, revenue bonds would likely result in more expensive debt. However, the benefit would be the preservation of the credit quality and lowest possible borrowing rates for the County's existing GO Bond program.

We would be happy to provide more detailed debt analysis and scenario evaluation if helpful.

Memorandum

TO: Scott Teruya, Director
Department of Finance

FROM: Craig M. Scully
Alex Deland
Mike Melzer

DATE: August 9, 2021

SUBJECT: County Council Letter of July 28, 2021 (the “Council Letter”) regarding Maui County Comprehensive Affordable Housing Plan (“Housing Plan”) Prepared by Hawaii Community Assets; Comments of Bond Counsel to the County

Scott,

Governmental bonds issued to directly finance affordable housing typically fall within one of three categories: general obligation bonds, limited obligation bonds and hybrid bonds. General obligation bonds (“GO Bonds”) are backed by the full faith and credit of the issuer and are accompanied by a legal obligation to levy property taxes, without limitation as to rate or amount, on all the real property subject to taxation by said issuer (a “levy obligation”). Alternatively, limited obligation bonds (“LO Bonds”), such as revenue bonds, special tax or assessment bonds, are secured only by a pledge of specified receipts and do not carry a levy obligation. Finally, hybrid bonds (“Hybrid Bonds”) generally involve a general obligation pledge (including a levy obligation) coupled with a specified receipts pledge where the specified receipts are intended and anticipated to pay debt service on the bonds but there’s a general obligation pledge as a backstop to enhance overall creditworthiness.

Maui County has statutory authority under the constitution and laws of the State of Hawaii to issue GO Bonds, certain types of LO Bonds and Hybrid Bonds for affordable housing purposes. Notably, HRS §46-15.2 grants the County authority to issue bonds to finance low- and moderate-income housing including under Chapter 47, including HRS §47-4, or Chapter 49 of the Hawaii Revised Statutes. Please note that in light of the nature of this memorandum we have not reviewed the Maui County Code, Maui County Charter or applicable judicial decisions which may contain additional limitations on the issuance or uses of proceeds of such bonds by the County or the ability to levy taxes in support thereof.

In terms of feasibility beyond statutory and constitutional authorization, as noted in the Council Letter and the Housing Plan, the County’s GO Bonds currently carry a very high credit rating (“Aa1/AA+” by Moody’s and S&P, respectively), higher than might be reasonably obtainable under any new LO Bond program. Rating agencies assign credit ratings based on a detailed

analysis which includes a substantial focus on the County's tax base and GO backed debt load. So while any financing program using Hybrid Bonds or GO Bonds would likely have a lower interest cost than an LO Bond program, such issuances could potentially adversely impact the County's GO Bond rating more broadly; increasing the County's borrowing costs.

Further, we call to your attention that GO Bonds and Hybrid Bonds are backed by the full faith and credit of the County, payable from all legally available funds of the County and coupled with an obligation to levy property taxes, without limitation as to rate or amount, on all the real property subject to taxation by the County. Said pledge is not limited to any specific allocation of property taxes. LO Bonds are the correct option if the County wants to keep the source of repayment limited to specified receipts, such as a specific allocation of property tax collections to the Affordable Housing Fund. We would be glad to walk you through available LO Bond programs if and to the extent helpful.

Finally, we would note that while these bonds may be eligible for tax exemption, there may be substantially different tax requirements and compliance considerations than those applicable to the County's traditional governmental purpose GO Bonds. We would be glad to walk you through the differences in tax treatment in detail if and to the extent helpful.

Yours Truly,
Team Katten