

HFC Committee

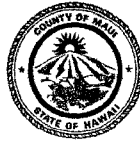
From: Michael Williams <michaelwilliams@pueofarm.com>
Sent: Tuesday, May 19, 2020 7:10 AM
To: HFC Committee
Subject: Opportunity Zones: Cost of Government Commission Investigation of Financing Wailuku Parking Structure
Attachments: COGC ltr 2 Dir. Baz re Wailuku Parking Structure financing.pdf

Aloha kakou. This committee plans a discussion of Opportunity Zones at its May 21 meeting. I think the Committee would want to know that the Cost of Government Commission is conducting an investigation of whether the County can save a substantial amount of money by using private capital to finance the Wailuku Parking Structure instead of County capital.

Private capital can take advantage of the large federal tax subsidy provided by the 2017 Federal Tax Cuts and Job Act. The planning for the Wailuku Parking Structure was initiated long before the Opportunity Tax Zone investment incentives were created. It is not apparent that the County has done an analysis of the possibility that private investors can deliver the parking structure at a cheaper overall price than using County capital can achieve. I attach a copy of the letter I sent on May 12 to Managing Director Sandy Baz concerning this inquiry. The cost of construction would not change, of course, but private investors may be able to charge much less to the county for parking fees, operation and maintenance costs over the life of the garage due to the federal tax subsidy.

Director Baz has indicated he can respond to the questions raised in the COGC letter by the end of this month.

Michael Williams
Chair, Cost of Government Commission



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.

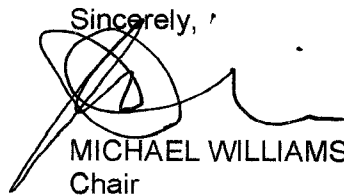
Since sending the March 2 email, I have learned that the County has signed a construction contract for the parking structure with Hawaiian Dredging Construction Co. Inc., and that the first construction for the project is not slated to start until at least December 2020.

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