

IT Committee

From: Michele McLean <Michele.McLean@co.maui.hi.us>
Sent: Tuesday, August 17, 2021 11:36 AM
To: IT Committee
Cc: cdecrinis@columbiacapital.com; Yukilei Sugimura
Subject: Fwd: Maui CFD Policy Power Point
Attachments: Policy Power Point 8.19.21 IT Committee CFD.pdf

Mahalo, Curt!

Also forwarding to the IT Committee so that it can be posted for Thursday's meeting.

Aloha,
Michele.

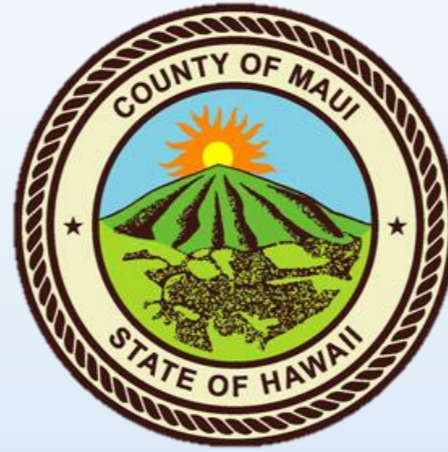
>>> "Curt de Crinis" <cdecrinis@columbiacapital.com> 08/17/21 11:35 AM >>>
Aloha Yuki

See attached final draft of the power point presentation for Thursday.
If you have questions please let me know.

Thank you!

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Infrastructure and Transportation Committee Community Facilities Districts - DRAFT

August 19, 2021

Chair - Yuki Lei K. Sugimura

What is a Community Facilities District?

- ◆ A Community Facilities District or CFD is a special taxing district formed to provide financing for needed public improvements.
- ◆ In other states, CFDs are often proposed by major developers who are required to build extensive public improvements.
- ◆ CFDs can also be proposed by property owner groups for a specific improvements.
- ◆ In Hawaii CFDs can also be used to replace existing public improvements.
- ◆ CFD bonds are generally sold to finance the improvement costs. Special taxes are levied and collected annually on the general property tax roll to pay the bond debt service and administrative costs.
- ◆ HRS Section 46-80.1 authorizes any Hawaii County having a charter to enact an ordinance providing for the creation of CFDs. All four counties have adopted the enabling ordinances.

Maui County's CFD Ordinance

- ◆ Ordinance 4947 effective, December 24, 2018, established Chapter 3.75, Maui County Code.
- ◆ Allows County to establish a CFD to finance the acquisition, planning, design, construction, installation, improvement or rehabilitation of any real property or structure with a useful life of five years or more.
- ◆ Improvements can be located inside or outside a CFD.
- ◆ Improvements can be funded by bonds or “pay as you go.”
- ◆ Authorized improvements include; streets, roads, highways, bikeways, parking, lighting, park and recreational facilities, open space, cultural facilities, utility undergrounding, water and wastewater facilities, police and fire facilities, drainage, transit, shoreline restoration, and other public projects.

Why use CFD Financing?

- ◆ CFD financing can significantly lower the development cost of public improvements in large projects. Lower upfront cost may allow for the development of lower cost homes and/or additional public improvements not otherwise affordable.
- ◆ CFD financing may allow property owner groups to develop or repair major public improvements without burdening the County General Fund.
- ◆ CFDs may allow public improvements to be constructed earlier in the development process.
- ◆ CFD bonds are secured only by the property subject to the tax and not the General Fund or other County taxpayers.
- ◆ CFD financing may allow the County to better prioritize the spending of General Fund monies in areas of need.

Challenges and Costs

- ◆ Additional administrative burden on County staff in overseeing CFD formation, issuing bonds, levying special taxes, providing ongoing bond disclosure and making bond payments.
- ◆ Although not General Fund debt, areas of the County tax base within a CFD would have additional bond debt. The County would need to be cautious and conservative in their issuance.
- ◆ Forming CFDs may be controversial. Other County interests may object to the proposed public improvements or the idea of special tax districts.
- ◆ Using CFDs would be a departure from current financing practices. Public improvements are currently funded primarily by the County General Fund, development fees, and/or conditions of development.

CFD Procedural Guidelines Overview

- ◆ The CFD Ordinance 4947 adopted December 21, 2018, provides the legal basis for forming a CFD. CFD Procedural Guidelines can not replace or modify the Ordinance.
- ◆ CFD Procedural Guidelines are intended to summarize key requirements of the CFD Ordinance and address the practical considerations and goals of the County Council and Mayor in forming CFDs and issuing CFD bonds.
- ◆ CFD Procedural Guidelines provide guidance to developers and community groups who wish to petition the County for financial assistance in funding needed or required major public improvements.
- ◆ CFD Priorities include funding need public infrastructure where there is clear public benefit.
- ◆ CFD Debt may not have any material impact on the County's bond ratings.

CFD Procedural Guidelines – CFD Applications

- The County will require a detailed application be submitted for all CFDs other than County initiated CFDs.
 - The County will require a minimum deposit of \$75,000 to process a CFD.
 - The applicant must provide a plan addressing long term public infrastructure maintenance costs not funded by the CFD special taxes.
 - The applicant must provide a public benefit statement addressing;
 - *Regional Benefits*
 - *County Initiatives*
 - *Environmental Benefits*
 - *Timing of Improvements*
 - *Other Public Benefits*
- County Staff, overseen by the Managing Director, will review each CFD application and provide a recommendation.

CFD Procedural Guidelines – Performance of Work

- ◆ The County will only accept public improvements into the County or State system upon inspection and completion of the work, subject to a funding and acquisition agreement at time of CFD formation.
- ◆ Applicant is responsible for the initial financing, design and construction of the public improvements, unless otherwise agreed.
- ◆ Upon completion, inspection and approval of the public improvements, CFD Bonds may be sold to acquire the public improvements and reimburse the applicant for the construction and CFD formation costs.
- ◆ Applicant will be required to indemnify the County for any claims arising out of CFD formation resulting from actions or information provided by the applicant.

CFD Procedural Guidelines – Special Taxes

- ◆ CFD Special Tax Rate Formulas will have certain requirements to assure tax fairness and that all cost related to CFD bonds are covered.
 - ◆ Special taxes rates will be determined by a special tax consultant retained by the County. Taxes will be apportioned on a reasonable basis to those properties receiving benefit.
 - ◆ The annual tax burden including general property taxes should not exceed 2% of assessed valuation on residential property.
 - ◆ The CFD special taxes must be structured to pay the annual bond debt service, County CFD administrative costs, CFD bond reserve funds, and cost of CFD bond issuance.
 - ◆ The CFD special taxes must be structured to generate 110% debt service coverage for each year to cover property tax delinquencies.
 - ◆ Annual CFD taxes can not increase more than 2% annually.
 - ◆ All future property owners must receive detailed disclosure of the special taxes including the maximum tax, prepayment provision, consequence of delinquency, and other factors.

CFD Procedural Guidelines – Issuance of Bonds

- ◆ The following conditions are intended to help assure that only credit worthy bonds are issued by the County.
 - ◆ The County will review each proposed CFD bond issuance with the County's municipal advisors and bond underwriters to determine its credit quality.
 - ◆ In most cases the County will require a bond reserve fund be funded by the bonds to cover up to one year of bond debt service.
 - ◆ If there are concerns that land values are insufficient to secure the CFD bonds, the County may require bank guarantees.
 - ◆ Bond interest may be funded for up to two years.
 - ◆ The value of land subject to the CFD taxes must at minimum equal three times the amount of CFD Bonds. Land appraisals will be required in most cases unless the value of the land is over five times the amount of CFD bonds issued and property ownership concentration is not a concern.
 - ◆ CFD Bonds may have restrictions limiting their sale to sophisticated institutional investors only.

Questions?