

July 1, 2024

MEMO TO: David M. Raatz, Jr., Director of Council Services

F R O M: Jarret Pascual, Legislative Analyst *JPP*

SUBJECT: **FUNDING THE MAUI COUNTY RECOVERY WITH A VALUES
BASED LENS** (PAF 23-021(30))

This report provides a summary of the March 13 and 15, 2024, Public Finance Initiative's Teach-In webinar on "Funding the Maui County Recovery with a Values Based Lens." The speaker was Lourdes German, Executive Director of the Public Finance Initiative.

Public finance options in the short term

"Public finance" is defined as the way government spends and raises money. When looking at the framework of fiscal governance, all expenditures and revenues should be examined through a cross-jurisdictional lens. Government should be aware of external factors such as state or federal funding and not only consider revenues that it has jurisdiction over.

Government funding options include:

- Intergovernmental revenues, such as state or federal aid;
- Tax own-source revenues, such as real property tax;
- Non-tax own-source revenues, such as fees, rates, or charges;
- Revenues from municipal bonds, notes, or loans; and
- Other revenues or money raised by passive income.

While the County has considered introducing tax reform and new ways to generate revenue, such as the Transient Accommodations Tax, these proposals often take time and the political will to succeed. One area that could be expanded in the immediate short term to increase the County's governmental funds is intergovernmental revenues. Potential short-term public-finance options include pay-as-you-go, grant anticipation notes, and commercial paper.

Pay-as-you-go allows the government to spend money in real-time to pay for operational expenses without incurring debt. While this method does not create future liabilities, there are appropriation risks or challenges if there are imbalanced revenues or a dislocation in revenue collection.

Grant anticipation notes (“GANs”) are short-term, interest-bearing notes that the government may use to immediately raise capital to fund a project, which can be repaid in the future with anticipated grant revenues. This allows the recipient to carry out the grant’s purpose without delay and serves as a form of bridge financing. The applicant must consider the timing of receiving grant revenue and interest rate risks for the repayment of GANs due to an inflationary environment.

Commercial paper acts as a line of credit with unsecured debt. This is another form of bridge financing, similar to GANs, but commercial paper may not need a grant agreement as a backstop. Unlike GANs, commercial paper has a shorter time window to repay the funds, typically within 270 days. Harris County, Texas, used commercial paper as part of its flood recovery plan to finance various short-term assets.

Public finance options in the long term

Other funding growth strategies may be pursued, but each method carries its own challenges and should be approached with an equity-informed lens:

- New intergovernmental revenues from federal or state sources;
- Addressing collection and administrative challenges, specifically for the Transient Accommodations Tax;
- Identifying rate increases to existing tax and non-tax own-source revenues;
- Authorizing new taxes, charges, fines, or fees; and
- Evaluating tax incentive models that may inhibit revenue growth.

An alternative stream of revenue can be partnering with foundations to establish foundation program related investments (“PRI”). Projects that align with a foundation’s philanthropic goals may be eligible for PRI funding which may then be used as a form of bridge financing.

PRIs may also be combined with federal funding to serve as a pool of money that can be transformed into a revolving loan fund (“RLF”). RLFs can be powerful vehicles for infrastructure financing and can exist in perpetuity as a source of sustained project funding. Under this framework, applicants receive a loan which is then paid back into the fund, allowing the money to be used for other purposes. Macon-Bibb County, Georgia, used RLFs for affordable housing development.

The presentation noted Maui County’s history of revenue reform, particularly the Temporary Investigative Group (“TIG”) on real property tax reform where several policy recommendations were made. However, an audience member expressed skepticism on the County’s recent tax policies and inaction on the TIG’s recommendations. Specifically, the General Excise Tax Surcharge was seen as regressive and the use of proceeds would only affect specific areas of the County.

Equity informed revenue strategies

With these concerns in mind, it is important to consider equity concerns and analyze the impact of revenue changes on residents of different income groups or racial or ethnic backgrounds and whether reforms to taxes or fees will disproportionately affect low-income groups or historically-marginalized groups.

One example is the Community Development Block Grant – Disaster Recovery Action Plan which requires grantees to prioritize critical unmet needs and be cognizant of community recovery.

Land value capture is another method that enables communities to recover and reinvest land value increases that result from public investment and government actions. This form of generative resource expansion can be used for infrastructure, affordable housing, and nature-based solutions. This tool has often been used in developing cities, which allows for inclusive and equitable urban development, creating broader public benefits.

Nature-based solutions and disaster recovery

David M. Raatz, Jr.
July 1, 2024
Page 4

Nature based solutions have become increasingly popular as the framework allows ecosystems to cope better with hazards and can reduce the magnitude of hazards. Some nature-based projects for wildfire restoration may include:

- Restoring fire-affected soils: microbial remediation, biochar, mulching, seeding, and erosion control;
- Restoring ecosystems: planting native plants and incentivizing regenerative agricultural practices;
- Protecting landscapes: removing fuel loads, invasive plants, and thinning trees;
- Preparing forests: planting fire-resistant vegetation, enabling herbivore grazing, and establishing fire breaks and prescribed burns; and
- Regeneratively-designed affordable housing: green, grey, or blue infrastructure.

Nature-based solutions provide measurable benefits for biodiversity. These solutions should be considered by the local community and indigenous peoples to respect cultural and ecological rights.

I hope you find this information useful. Please let me know if I can provide any additional information related to this matter.

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cc: Deputy Director of Council Services