

TO: Members of the Oahu Real Property Tax Advisory Commission

FROM: Natalie Iwasa, CPA, CFE
Former Commissioner 2011 and 2019 ORPTACs
808-395-3233

RE: Priorities, Requests and Focus Moving Forward

DATE: Wednesday, January 19, 2022

Aloha Commissioners,

Thank you for allowing testimony for this meeting and discussing the “meat” of our real property tax system.

V 1 (a) Existing Credits and Exemptions

County Tax Credit

The county tax credit reduces a homeowner’s real property tax to no more than 3% of their income. In order to qualify, income must be no more than \$60,000, and a homeowner must submit a tax return or other documentation. Income from all owners on title are to be included.

In 2014, the maximum combined income was increased from \$50,000 to \$60,000. Two years later, the credit was increased by changing the percentages from 4% to 3% of income.

Given that it’s been about six years since the income level was revised, **please evaluate the criteria used for eligibility and consider the change in area median income as well as the number of taxpayers who annually qualify for this credit.**

Please also **consider recommending that the definition of “income” specifically include pre-tax income, such as that for dependent care or other cafeteria plan items.** Several years ago, when I had asked about the credit, these amounts were not always included – it depended on whether the W2s that were provided included the information.

Exemptions

If I counted correctly, there are currently 28 types of exemptions. Some of these are not included on the table provided by the Real Property Assessment Division (RPAD), e.g., exemptions for lessees of exempt real property under ROH Sec. 8-10.18. **Please ask how many properties fell under this exemption and the others that are not included in the table. How are the properties being used?** Depending on the responses, it may make sense to evaluate exemption 8-10.18 and the others more closely.

Specific exemptions that should be removed or revised are as follows:

- **ROH Sec. 8-10.10 Charitable purposes – correct the definition;**
- **ROH Sec. 8-10.24 Credit Unions – remove the exemption;**

- **ROH Sec. 10.33 – For-profit child care centers – remove the exemption.**

Section 8-10.10 Charitable Purposes

The definition of “charitable purposes” under this section is so convoluted, I have difficulty understanding it. Included in this section are organizations such as labor unions and business leagues that are not 501(c)(3) organizations, which is typically the go-to definition of “charitable.” **Please recommend that the definition of this section be revised to include only entities that operate for charitable purposes.** The IRS definition under IRC 501(c)(3) is:

Corporations, and any community chest, fund, or foundation, organized and operated exclusively for religious, charitable, scientific, testing for public safety, literary, or [educational purposes](#), or to foster national or international amateur sports competition (but only if no part of its activities involve the provision of athletic facilities or equipment), or for the prevention of cruelty to children or animals, no part of the net earnings of which inures to the benefit of any private shareholder or individual, no substantial part of the activities of which is carrying on propaganda, or otherwise attempting, to influence legislation (except as otherwise provided in subsection (h)), and which does not participate in, or intervene in (including the publishing or distributing of statements), any political campaign on behalf of (or in opposition to) any candidate for public office.

The definition that was used for the city’s grants-in-aid program could be used in lieu of the federal definition.

Section 8-10.24 Credit Unions

When Credit Unions were first allowed in the U.S., their main purpose was to help low-income people, because they were falling through the cracks within the traditional banking system. Credit unions have gradually evolved and today compete directly with banks. (See the attached ad for a prime example of this.) In addition, banks also offer services to low-income people. (In 2001 and 2004, banks served a higher percentage of low- and moderate-income customers than credit unions did. I have been unable to obtain updated information, mostly due to time limitations.)

For FY 2011 – 2012, credit unions received a tax benefit of approximately \$1.5 million, and 77 properties fell into this exemption, according to data provided by the RPAD. (See attached.) Those numbers have grown to \$3.4 million and 92 for FY 2021 – 2022. The minimum tax for credit unions was increased from \$300 to \$1,000 effective with tax years beginning July 1, 2016.

It’s important to understand some history regarding proposed changes to the credit union exemption. When it was recommended by the 2011 ORPTAC, the credit union industry lobbied very strongly against any changes. For example, they put petitions in their offices. The wording of these petitions made it sound like the council was going to remove exemptions for homeowners, so naturally many individuals signed them.

In addition, the chair of the Committee on Budget for many years was Councilmember Ann Kobayashi. I learned subsequently that she was also on the board of CUSO of Hawaii Services, LLC, a credit union service organization (<http://cusoofhawaii.com/#about>). Given fiduciary requirements of board members, at a minimum this board membership gave the appearance that Councilmember Kobayashi had a conflict of interest with her duties as a councilmember.

There are several other good arguments that I have brought up in testimonies over the years for the repeal of this exemption. This one is a “no brainer” in my opinion.

Section 8-10.33 For-profit Group Child Care Centers

Several years ago, there was a proposal to remove this exemption. Those in opposition said such removal would increase the cost of child care for parents. It was pointed out at the time that these for-profit entities could apply to become nonprofit organizations and qualify for exemption under Sec. 8-10.10. In FY 2011 – 2012, the tax benefit to for-profit child care centers was \$55,000, and there were three properties under this exemption. For FY 2021 – 2022, the tax benefit has grown to \$243,000 and 14 properties.

While the “tax benefit” – which is really a cost to other taxpayers – is relatively small, it’s the policy that is more important. Nonprofit organizations are required to disclosure quite a lot of information to the public, including their revenues and expenses and compensation paid to officers, directors and key employees. No such requirement exists for for-profit entities.

Please recommend this exemption be repealed. For-profit child care centers have had more than enough time to apply for exempt status as a nonprofit organization.

Section 8-10.22 Historic Residential Real Property

The tax benefit for this exemption was \$990,000 and included 255 properties in FY 2011 – 2012. Those numbers increased to \$4.2 million and 376 in FY 2021 – 2022. It would be helpful if the Commission would obtain information to better evaluate this exemption. My understanding is that the tax benefits offered to historic properties are among the highest, or perhaps the highest, in the nation.

Section 8-10.5 Home, Lease, Lessees Defined

This section covers homeowners’ exemptions for renters who have five-year leases. In my experience, this rarely happens on residential properties. If this definition were changed to include properties with leases that are one year, that would mitigate a lot of my concerns regarding the Residential A classification. Such a change requires more discussion.

V 1 (b) Existing Classification System & Tiering

As you know, the median price of a single-family home on Oahu is now above \$1 million, which

is the threshold for the Residential A classification. In my prior testimony to the Commission, I provided estimates of increases in the number of properties that would fall under the Residential A classification. My estimates were significantly below the actual increase, however. According to preliminary information from the RPAD, the number of properties included in Residential A for next fiscal year increased about 42% from the current year -- from 14,530 to 20,772. (See attached.) I am very concerned about the impact this is going to have on our rental market in the next few years.

Any changes made to the definition of this classification wouldn't go into effect until FY 2023 - 2024 at the earliest. In order to mitigate the impact to homeowners who provide homes for many renters on Oahu, **please recommend that the tier 1 rate be dropped from \$4.50 to \$3.50.** Such a decrease would still result in an increase in taxes of approximately \$7.6 million from this classification. (See attached.)

The more complex our tax policies are, the more it costs to administer them. I therefore do not support adding additional tiers for different rates. Nor do I support adding more classifications. It would be better, in my opinion, to combine some of the other classifications, e.g., commercial and industrial. They have been at the same tax rates for at least a decade.

Other topics

Transparency

I fully support the Commission's efforts to bring more transparency to the valuation and assessment process and the RPT system.

Full Evaluation of System

I also support a full evaluation of our real property tax system, including timelines and deadlines, the appeals process and compliance issues.

Priorities

As far as priorities, please make removal of exemptions for credit unions and for-profit care centers, revision to the definition of charitable organizations and the decrease in tier 1 rate for Residential A properties priorities.

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*The (1) stated net purchase transactions with a HSFCU debit card within 30 days of checking account opening are required to qualify. Or open a new checking account with a direct deposit within 60 days of account opening. Annual percentage yields as of January 1, 2021, are as follows: Regular Savings: 0.20%, Simple Checking: 0.00%, Overdraft Checking: 0.10%, Relationship Checking: 0.10% for balances up to \$9,999.99, 0.10% for balances \$10,000 to \$24,999.99, 0.15% for balances \$25,000 to \$49,999.99 and 0.20% for balances \$50,000+.

Promote will be made to the savings account within 90 days after meeting conditions. APNs and other may change at any time. Offer applies to new members only. Limit of one per member. Promote subject to 1099 reporting requirements.

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March 2020

ORPTAC January 19, 2022

ROH Section	Type of Exemption	Count	Total Exempted Valuation	Tax Benefit
Taxable:				
8-10.4	Homes	144,092	\$14,093,897	\$49,329
8-10.6	Homes of totally disabled veterans	940	\$515,002	\$1,804
8-10.7	Persons affected with leprosy	3,271	\$81,831	\$290
8-10.8	Persons with impaired sight or hearing and persons totally disabled			
8-10.9	Nonprofit medical, hospital indemnity association	77	\$673,680	\$7,646
8-10.10	Charitable purposes	1,709	\$4,013,464	\$25,919
8-10.12	Crop Shelters	23	\$2,968	\$17
8-10.13	Dedication (Dedicated lands in urban districts)	16	\$29,986	\$175
8-10.20	Low-income rental housing	273	\$1,583,272	\$6,617
8-10.22	Dedication (Historic - Residential)	255	\$282,947	\$990
8-10.23	Other exemptions (Hawaiian Home Land Lease)	2,978	\$1,333,795	\$4,682
8-10.24	Credit Union	77	\$118,894	\$1,473
8-10.25	Slaughterhouses	1	\$2,787	\$16
8-10.26	Qualifying construction work	15	\$62,406	\$774
8-10.27	Public service (Public utilities)	496	\$789,452	\$13
8-10.30	Dedication (Historic - Commercial)	5	\$24,644	\$305
8-10.32	Kuleana land	37	\$23,775	\$91
8-10.33	For-Profit Child Care Center	3	\$4,436	\$55
Subtotal (Taxable)		154,268	\$23,637,236	\$100,196
Non-Taxable:				
8-10.17	Exemption - Public property (Federal - Fee)	403	\$6,069,179	\$40,041
8-10.17	Exemption - Public property (State - Fee)	3,252	\$11,408,598	\$98,743
8-10.17	Exemption - Public property (County - Fee)	2,138	\$4,873,719	\$34,485
8-10.17	Exemption - Public property (Civil - Condemnation)	26	\$30,837	\$296
8-10.17	Exemption - Public property (Roadway & Waterway)	3,043	\$10,954	\$49
8-10.17	Exemption - Public property (Setback)	12	\$108	\$0
8-10.17	Exemption - Public property (Consulates)	29	\$38,139	\$134
8-10.23	Other exemptions (Hawaiian Home Land - Fee)	865	\$982,081	\$3,597
8-10.23	Other exemptions (Hawaiian Home Lease - 7 years)	329	\$171,983	\$598
Subtotal (Non-Taxable)		10,097	\$23,585,598	\$177,943

NUMBER OF RECORDS BY LAND USE CLASS FOR TAX YEAR 2022 - 2023					
LAND USE CLASS	HONOLULU C&C	MAUI COUNTY	HAWAII COUNTY	KAUAI COUNTY	STATEWIDE
Residential	256,918				
Residential A	20,772				
Non Owner-Occupied	0				
Apartment	0				
Commercial	6,813				
Industrial	4,308				
Agricultural/Native Forest	3,045				
Vacant Agricultural	96				
Conservation/Preservation	963				
Hotel/Resort	8,718				
Bed/Breakfast Home	0				
Homeowner	0				
Owner-Occupied	0				
Homestead	0				
Public Service	463				
Time Share	0				
Affordable Rental	0				
Commercialized Residential	0				
Vacation Rental	0				
Residential Investor	0				
Short Term Rental	0				
Commercialized Home Use	0				
TOTAL	302,096	0	0	0	0

HONOLULU REAL PROPERTY TAXES
Residential A Class Comparisons

		In Thousands					
		Net Tax Val.		Tax Rate	Tax	Tax At Proposed \$3.50	Tax Diff. Bet. \$4.50 & \$3.50
FY 2023	Tier 1	20,235,386	¹	\$ 4.50	91,059,237	² 70,823,851	20,235,386
							Diff. Bet. 2023 Proposed \$3.50 and 2022 tax
FY 2022	Tier 1	14,052,222	²	\$ 4.50	63,235,000	³	\$ 7,588,851

¹ Per preliminary report from RPAD, *Number of Records by Land Use Class for Tax year 2022 - 2023*

² Calculated based on current tax rate and data provided.

³ Per report from RPAD for FY 2021 - 2022, *Real Property Tax Valuation*. Amounts reported are rounded to nearest thousands.