



# CITY COUNCIL

CITY AND COUNTY OF HONOLULU  
HONOLULU, HAWAII 96813-3077

<https://www.honolulu-citycouncil.org/oahu-real-property-tax-advisory-commission>

**Commissioners:**

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**DATE:** JUNE 30, 2022

**TO:** HONORABLE CHAIR WATERS AND COUNCILMEMBERS  
COUNCIL OF THE CITY AND COUNTY OF HONOLULU

**FROM:** OAHU REAL PROPERTY TAX ADVISORY COMMISSION

**SUBJECT: Final Report and Recommendations**

The purpose of this Final Report ("Report") is to provide the final recommendations of the 2021-2022 Oahu Real Property Tax Advisory Commission ("Commission") to the Council of the City and County of Honolulu ("City Council"), specifically to:

- 1) Evaluate real property tax ("RPT") credits and exemptions presently provided for (or proposed) in the Revised Ordinances of Honolulu ("ROH");
- 2) Review the existing *Residential* RPT classification, and discuss an alternative tiering and rate structure;
- 3) Conduct a Land Value Tax Study; and
- 4) Provide follow-up comments regarding the Commission's *Interim Report* from December, 2021, and the status of its recommendations.

## **BACKGROUND**

Under [Resolution 17-112](#) (2017), as amended by [Resolution 19-199](#) (2019), the City Council established the Commission consisting of seven citizens, with the purpose of conducting a biennial systematic review of the City and County of Honolulu ("City") RPT system, its valuation methodologies, classes, exemptions, credits, and minimum property tax, to make the current system more equitable and efficient.

The Commission acknowledges the repeated recommendation of prior Commissions regarding the need for additional time to thoroughly and competently conduct its review and make recommendations. The Commission is grateful to the City Council for their patience and support in extending the reporting deadline provided in the authorizing resolutions, to allow the Commission adequate time to do its work.

As such, the Commission via [CC-439](#) (2021), previously submitted an *Interim Report* to the City Council on December 29, 2021, that addressed two matters:

- 1) The need for greater transparency in the processes and work of the City's Real Property Assessment Division ("RPAD") within the Department of Budget & Fiscal Services; and
- 2) A new or supplemental tax classification related to vacant (empty) home residential properties.

The Commission appreciates the ongoing efforts by the City Council to address the recommendations included in the *Interim Report*, and provides brief follow-up comments regarding them in **Section IV**, below.

The Commission as a whole and its four subcommittees (Credits & Exemptions; Rates & Classifications; Valuation; and Policy), met dozens of times over the course of the past year, holding 17 public meetings to discuss and deliberate its systematic review of the City's RPT system.<sup>1</sup> Given the Commission's mandate to ensure equity and efficiency in the City's RPT policy, this Report outlines the Commission's recommendations.

## **I. RECOMMENDATIONS TO RETAIN, REPEAL OR REVISE EXISTING RPT EXEMPTIONS AND CREDITS.**

Prior Commissions have evaluated the effectiveness and utility of the myriad of RPT exemptions currently provided in ordinance. In light of [Bill 42](#) (2021), which proposed to repeal all exemptions currently contained within ROH Chapter 8 Article 10 ("Exemptions"), as amended by Ordinances 20-13 and 30-37, this Commission held multiple public meetings including one on March 15, 2022, which was noticed (published) in the newspaper, to solicit as much public input and testimony as possible regarding the City's current RPT exemptions.

As a result of these many meetings and multiple discussions, the Commission recommends numerous exemptions be retained<sup>2</sup> and recommends revision or repeal, as specified, for the following RPT exemptions:

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<sup>1</sup> Commission meeting recordings, agendas, summaries, testimonies, and reports are available on the Commission's website: <https://www.honolulu-citycouncil.org/oahu-real-property-tax-advisory-commission>.

<sup>2</sup> The Commission recommends retention of the following exemptions: ROH Sections: **8-10.6** (Homes of totally disabled veterans); **8-10.7** (Persons affected with leprosy); **8-10.9** (Nonprofit medical, hospital indemnity association); **8-10.13** (Dedicated lands in urban districts); **8-10.17** (Public property); **8-10.19** (Property of the United States leased under the National Housing Act); **8-10.23** (Other exemptions); **8-10.27** (Public service); **8-10.28** (Additional terms and conditions for exemption of low-income rental housing projects on Hawaiian home lands); **8-10.32** (Kuleana land); **8-10.31** (Qualifying agricultural improvements for dedicated vacant agricultural lands); **8-10.36** (Qualifying affordable rental dwelling units or affordable rental housing units; and **8-10.37** (During construction work for and marketing of affordable dwelling units or affordable rental housing projects).

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<u>ROH SECTION</u>	<u>EXEMPTION / CREDIT DESCRIPTION</u>	<u>RECOMMENDATION</u>
8-10.4	Homes	<p><b>REVISE.</b> Recommend increases to home exemption amount to adjust for inflation and statewide property valuations; Consider the exclusion of certain percentage of high-value properties from the Homeowner's exemption.</p> <ul style="list-style-type: none"> <li>Discussed in Subsection A. (below), including discussion on Bills 7(2022), 35(2022), and 40(2022).</li> </ul>
8-10.8	Persons with impaired sight or hearing and persons totally disabled	<p><b>REVISE.</b> Consider narrowing definition of exemption to homes only, instead of all real property.</p>
8-10.10	Charitable Purposes	<p><b>REVISE.</b> Define "charitable purpose" according to the Internal Revenue Service's definition of a 501(c)(3) charitable organization; or in the alternative: redefine exemption's purpose from "charitable" to "nonprofit" purposes as ordinance currently provides, for consistency.</p>
8-10.12	Crop Shelters	<p><b>REPEAL.</b></p>
8-10.15	Alternate energy improvements	<p><b>REVISE.</b></p> <p>Discussed in Subsection D. (below)</p>
8-10.20	Low-income rental housing	<p><b>REVISE.</b> Eliminate the annual filing requirement by revising ROH Section 8-10.21 to resemble Kauai County Code Section 5A-11.21(b).</p>
8-10.22	Historic residential real property dedicated for preservation	<p><b>REVISE.</b> Readopt 2019 Commission recommendation to increase the minimum real property tax from \$300. Commission recommends that fully exempt real property be subject to a minimum real property tax of \$1,000 and partially exempt real property be subject to real property taxes in an amount no less than \$1,000.</p> <p>Commission also recommends City Council consideration of a means-based qualification for this exemption, and whether exemption is still necessary and beneficial.</p> <ul style="list-style-type: none"> <li>Discussed in Subsection B. (below)</li> </ul>

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<u>ROH SECTION</u>	<u>EXEMPTION / CREDIT DESCRIPTION</u>	<u>RECOMMENDATION</u>
8-10.24	Credit Unions	<p><b>REPEAL.</b> Readopt 2019 Commission recommendation to repeal RPT exemptions for credit union owned real property, such that federally chartered or state chartered credit unions be taxed at the same rate as commercial real property.</p> <ul style="list-style-type: none"> <li>• Discussed in Subsection C. (below)</li> </ul>
8-10.25	Slaughterhouses	<b>REPEAL.</b>
8-10.26	Qualifying construction work	<b>REPEAL.</b>
8-10.29	Nonprofit organization thrift shops	<p><b>REVISE.</b> If the recommendation for amendment to ROH Section 8-10.10 is enacted, Commission recommends either adding a 501(c) (3) specification to ROH Section 8-10.29 or merge its contents into the amended ROH Section 8-10.10 provision.</p>
8-10.30	Historic commercial real property dedicated for preservation	<p><b>REVISE.</b> Readopt 2019 Commission recommendation to increase the minimum real property tax from \$300. Commission recommends that fully exempt real property be subject to a minimum real property tax of at least \$1,000 and partially exempt real property be subject to real property taxes in an amount no less than \$1,000.</p> <p>Commission also recommends City Council consideration of a means-based qualification for this exemption, and whether exemption is still necessary and beneficial.</p> <ul style="list-style-type: none"> <li>• Discussed in Subsection B. (below)</li> </ul>
8-10.33	For-profit group child care centers	<p><b>RETAIN</b> but <b>REVISE.</b> 2019 Commission recommendation was to repeal, but this Commission recognizes a serious shortage of legitimate childcare options in Hawaii, regardless of whether the provider is for-profit or non-profit. This Commission does not want to make any recommendation to make childcare more difficult than it is presently.</p> <p>The Commission recommends retention of this exemption, but urges the City Council to also consider a closer examination of childcare issue more broadly and explore what the City's options are to more effectively address and alleviate the situation and provide greater relief, in lieu of or in addition to the current exemption.</p>

<u>ROH SECTION</u>	<u>EXEMPTION / CREDIT DESCRIPTION</u>	<u>RECOMMENDATION</u>
8-10.34	Central Kakaako industrial zone limited development	<p><b>REVISE</b></p> <p>Commission recommends support for recently introduced Bill 34 (2022).</p> <ul style="list-style-type: none"> <li>Discussed in Subsection E. (below)</li> </ul>
8-13.2	RPT credit	<p><b>REVISE.</b> Recommend increases to credit amount to adjust for inflation and statewide property valuation, utilizing HUD metrics.</p> <ul style="list-style-type: none"> <li>Discussed in Subsection F. (below), including discussion on Bills 37(2022) and 38(2022).</li> </ul>

**A. Homeowner's Exemption under ROH Section 8-10.4.**

The Commission has had extensive discussions regarding the Homeowner's Exemption, with unanimous agreement amongst its members, that the monetary threshold(s) should definitely be increased. The Commission deliberated at length regarding the best mechanism to determine the appropriate exemption amount, the equity of this exemption, and the extent of the limited relief it provides.

Multiple measures pertaining to the Homeowner's Exemption are currently pending before the City Council, and are summarized in the following table:

<b>Homeowner Exemption</b>	<b>EXISTING ROH 8-10.4</b>	<b><u>BILL 7</u> (2022)</b>	<b><u>BILL 35</u> (2022)</b>	<b><u>BILL 40</u> (2022)</b>
<b>CALCULATION</b>	Set \$\$ threshold	Annually adjust according to consumer price or inflation indices by RPAD	Annually adjust according to consumer price or inflation indices by RPAD	Annually adjust according to consumer price or inflation indices by RPAD
<b>AMOUNT</b>	\$100,000	No less than \$100,000;	No less than \$120,000	\$110,000
<b>AGE 65 &amp; older</b>	\$140,000	\$140,000	\$160,000	\$150,000
<b>LOW-INCOME</b>				
Age 75+	\$140,000	\$140,000	\$140,000	\$140,000
Age 80+	\$160,000	\$160,000	\$160,000	\$160,000
Age 85+	\$180,000	\$180,000	\$180,000	\$180,000
Age 90+	\$200,000	\$200,000	\$200,000	\$200,000

The Commission believes that [Bill 35](#) (2022) best addresses the adequacy and equitability of the existing Homeowners Exemption. Should a more comprehensive re-tiering and restructuring of the *Residential* RPT classification and rate system be undertaken, as discussed in greater detail below in **Section II**, the City Council is urged to consider the possibility of repealing the Homeowner's Exemption.

**B. Historic Properties Exemptions under ROH Sections 8-10.22 and 8-10.30.**

The Commission recognizes that there have been significant improvements in the administration of the historical properties program as specifically addressed in the City Auditor's Report Nos. 13-02<sup>3</sup> and 19-07<sup>4</sup>.

The Commission reiterates the recommendation made by the 2019 Commission that the exemptions provided to historic residential and commercial real properties be amended to increase the minimum real property tax from \$300 to \$1,000. Should the City Council concur with the recommendation to revise and increase the minimum RPT imposed on these properties, this Commission also suggests the City Council consider a means-based qualification, as well as whether the historical properties program itself continues to serve a necessary and beneficial purpose to the City and its taxpayers, i.e. repeal.

**C. Credit Unions Exemption under ROH Section 8-10.24.**

This Commission acknowledges numerous testimonies received and recognizes the positive impact credit unions provide to those that are not best served by institutional, commercial and retail banks. However, the wide prevalence of credit unions today and their widespread use amongst hundreds of thousands of members, are indicators that this exemption may have outlived its intended purpose.

Credit unions appear to be on nearly equal footing, and openly compete, with similarly situated institutions in the market. Due to the success of credit unions, they should no longer be entitled to an exemption from the City's RPT.

**D. Alternate Energy Improvements Exemption under ROH Section 8-10.15.**

In 2021, the RPAD re-assessed certain real property located on agricultural lands with renewable energy facilities that sell electricity back to the electric utility, from the [lower tax rate] agricultural class to the [higher tax rate] industrial class, creating an unanticipated and unexpected rate increase in tax liability upon these respective property owners.

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<sup>3</sup> Report No. 13-02, Audit of the Real Property Assessment Division, *available at*: [https://www.honolulu.gov/rep/site/oca/oca\\_docs/rpad\\_final\\_report.pdf](https://www.honolulu.gov/rep/site/oca/oca_docs/rpad_final_report.pdf)

<sup>4</sup> Report No. 19-07, Follow-Up on Recommendations from Report No. 13-02, *available at*: [https://www.honolulu.gov/rep/site/oca/oca\\_docs/RPA\\_Followup\\_Final\\_Report.pdf](https://www.honolulu.gov/rep/site/oca/oca_docs/RPA_Followup_Final_Report.pdf)

Multiple stakeholders, including the Public Utilities Commission, the State Energy Office, the Consumer Advocate, the Hawaiian Electric Company, and renewable project developers expressed grave concerns with this decision citing its negative impact on Hawaii and the City's economy and renewable energy and resilience goals, as well as equity and fairness to the tax payer.

The Commission is aware, that through a collaborative stakeholder process including the aforementioned parties, as well as the City Council and the RPAD, Bill 39, CD1 (2021) was passed on December 1, 2021, signed into law by Mayor Blangiardi on December 14, 2021, and enacted as [Ordinance 21-32](#).

The Commission understands that at the time of passage, the collaborating parties understood [Ordinance 21-32](#) to be a temporary solution and expressed the need to collaborate further on a longer-term solution that provides more certainty and clarity for existing property owners and new investments in renewable energy generation, in alignment with well-established State and City public policies.

The Commission believes that this should include provisions ensuring that real property with renewable energy facilities are able to maintain existing RPT classifications as agricultural (instead of industrial), or alternatively, creating a new RPT class and rate for property with renewable energy facilities upon it, to remedy the confusion.

Whatever approach is determined best, the Commission believes it is not appropriate to assess real property with renewable energy facilities (such as solar and wind), in the industrial class with correspondingly high tax rates, creating serious disincentives and uncertainty in an area needing serious and secure investments.

Therefore, the Commission recommends that the City Council convene a stakeholder process to design and advise on successor legislation or recommend amendments to [Ordinance 21-32](#), which will provide for a longer-term solution that can achieve broad consensus and agreement among affected parties.

**E. Kakaako Industrial Zone Exemption under ROH Section 8-10.34.**

The Commission notes that it recommended to maintain the exemption provided under ROH Section 8-10.34 ("Central Kakaako industrial zone limited development."). Upon being apprised of [Bill 34](#) (2022) presently pending before the City Council, the Commission reviewed the measure and supports its passage as it will provide tax relief to additional parcels near central Kakaako (designated by the Hawaii Community Development Authority), as well as incorporate additional requirements to qualify for the exemption.

**F. RPT Credit under ROH Section 8-13.2.**

Two measures related to the low-income RPT credit are currently pending before the City Council, and are summarized in the following table:

<b>RPT CREDIT LOW-INCOME</b>	<b>EXISTING ROH 8-13.2</b>	<b><u>BILL 37</u> (2022)</b>	<b><u>BILL 38</u> (2022)</b>
<b>CALCULATION</b>	Set \$\$ threshold	Set \$\$ Threshold	80 percent of area median income for 2-person household in Honolulu (per HUD)
<b>AMOUNT combined income of all property titleholders</b>	\$60,000	\$70,000	TBD

The Commission, believes both proposals to amend ROH Section 8-13.2 have merit, but has a preference for [Bill 38](#) (2022) because, like the Homeowner's Exemption under ROH Section 8-10.4, the flexibility provided by an annual adjustment that reflects current economic conditions is beneficial and in the public interest.

**G. RPT Exemption for Long-term Leases.**

Lastly, the Commission became aware of [Bill 35](#) (2022), presently pending before the City Council, that proposes a new section be created in ROH Chapter 8, Article 10, which establishes a \$120,000 exemption available to tax payers that own residential property and provide long-term leases of that property for one year or more.

Maui County also recently enacted [Ordinance 5159](#) (2020), which provides a "long-term" rental (lease) exemption to their RPT, and the Commission urges the City Council to evaluate and assess the effectiveness of that exemption on Maui. The Commission notes that a restructuring of the residential rates as contemplated in **Section II** below, would likely obviate the need for an RPT exemption on long-term leases (rentals).

**SUMMARY CONCLUSION**

The Commission recognizes that the total amount of revenue loss from RPT credits and exemptions is relatively small in comparison to the City's overall operating budget. As discussed above though, there are certain exemptions that fundamentally impact individual taxpayers and are foundational cornerstones of an equitable and efficient RPT system. It is important that these exemptions remain updated and not outdated.



## II. RECOMMENDATION TO REVIEW, REVISE AND RESTRUCTURE THE EXISTING *RESIDENTIAL* RPT CLASSIFICATION.

The City has previously attempted to restructure the *Residential* RPT classification under ROH Section 8-3. In 2010, the owner occupied/non-owner-occupied residential property tax classifications were discontinued after only one year, due to concern for tenants residing in properties taxed at a higher non-owner rate.

This resulted in the establishment of the *Residential-A* classification, which assigned a higher tax rate to higher value non-owner-occupied properties, mitigating the effects on lower value properties more likely to be leased to lower income tenants.

The proposal to re-instate the owner-occupied and non-owner-occupied classifications can be mitigated by setting equal rates for the lower tiers as demonstrated in the example discussed below.

### A. Restructuring and Retiering the City's *Residential* RPT Classification.

Implementing a tiered structure for all residential properties would provide the City more flexibility in administering an equitable and efficient RPT system overall. A percentile-based tiering of residential property values would create a “closed loop system” for determining the annual cut-offs of each tier instead of indexing them to outside data sources or relying just upon highest and best use of the property as a metric.

The Commission does not recommend using either the U.S. HUD / Hawaii HHFDC annually published income guideline tables – a viable index with the ability to set tiers according to affordable home prices at varying income levels; or the Honolulu Board of Realtors Sale Prices – a popular metric published quarterly but data that only reflects market sales prices. This was the impetus for a percentile-based tiering recommendation.

If such a restructuring is attempted, the Commission recommends the City Council consider the following actions (in totality), as such an effort will effectively replace the existing *Residential* RPT classification with an *owner-* versus *non-owner- occupied* percentile tiering system:

1. Eliminate the Homeowner's Exemption under ROH Section 8-10.4;
2. Eliminate *Residential* and *Residential-A* Classifications, and associated tiered rates;
3. Implement Residential Owner-Occupied Classification, and four-tier rates based on annual quartiles of the RPAD valuations; and
4. Implement Residential Long-Term Rental Classification and four-tier rates based on annual quartiles of the RPAD valuations.

The Commission also had the opportunity to meet with the Administrator for Maui County's RPAD, who provided insight into the efforts Maui County has undertaken to revise their ordinances to implement a more equitable and efficient residential RPT classification and rate system.

The Commission acknowledges the City may not have the technology and systems in place to execute on this proposal immediately. This proposal is for a long-term change that may require the City to invest in updating its technological resources.

**B. Modeling shows possibility for greater equity and diminishing disparity.**

The example provided in this Report, tiers by quartiles, but the City could determine that other cutoffs, for percentile-based tiers, may be more equitable. In data provided by the RPAD, the Commission requested a dataset:

1. Combining all *Residential* and *Residential-A* properties into a single dataset;
2. Sorting this dataset from lowest tax assessed value to highest value;
3. Dividing this sorted dataset into four equal quartiles; and
4. Providing a summary of the data set, including range of values for each quartile.

<u>QUARTILE</u>	<u>RES COUNT</u>	<u>RES-A COUNT</u>	<u>LOW VALUE</u>	<u>HIGH VALUE</u>	<u>MEDIAN</u>	<u>MEAN</u>
<u>1</u>	69,432	0	\$100	\$478,800	\$346,200	\$319,232
<u>2</u>	69,432	0	\$478,800	\$784,000	\$636,700	\$634,934
<u>3</u>	66,652	2,780	\$784,000	\$1,047,200	\$902,500	\$906,177
<u>4</u>	51,449	17,983	\$1,047,200	\$436,591,400	\$1,302,700	\$1,682,247

The RPAD provided the above table, noting in summary: that there were 277,728 properties included in the data set, with a median value of \$784,000 and mean value of \$885,648. The provided data is compared to the example schedule of *Residential* tiered rates presented in the written report from the Subcommittee on Rates and Classifications in [CC-82](#), dated March 7, 2022.

The example rate schedule is detailed below followed by four hypothetical *Residential* RPT scenarios, their respective tax calculations and difference in tax liability between the existing residential RPT structure and the *owner-* versus *non-owner-occupied* proposed restructuring.

**EXAMPLE RATE SCHEDULE**

<u>CLASS</u>	<u>Q1 VALUE</u> \$0 to \$478,800	<u>Q2 VALUE</u> \$478,801 to \$784,000	<u>Q3 VALUE</u> \$784,001 to \$1,047,200	<u>Q4 VALUE</u> \$1,047,200 and above
<u>Owner-Occupied</u>	0.25%	0.35%	0.45%	0.65%
<u>Non-Owner Occupied</u>	0.25%	0.35%	0.65%	1.39%

**EXAMPLES**

<u>EX.</u>	<u>TAX-PAYER</u>	<u>CURRENT versus PROPOSED</u>		<u>DIFFERENCE</u>
		<u>TAX CALCULATION</u>	<u>TAX LIABILITY</u>	
<b>A</b>	\$500,000 property  NO Homeowner's exemption.	<b>CURRENT</b> $500,000 \times (\$3.50/\$1,000)$	\$1,750	Owner pays <b>\$478.80 less</b> in annual RPT
		<b>PROPOSED</b> $[\$478,800 \times (\$2.50/\$1,000)] + [(\$500,000 - \$478,800) \times (\$3.50/\$1,000)]$	\$1,271.20	
<b>B</b>	\$850,000 property  \$100,000 Homeowner's exemption	<b>CURRENT</b> $(\$850,000 - \$100,000) \times (\$3.50/\$1,000)$	\$2,625	Owner pays <b>\$62.80 less</b> in annual RPT
		<b>PROPOSED</b> $[\$478,800 \times (\$2.50/\$1,000)] + [(\$784,000 - \$478,800) \times (\$3.50/\$1,000)] + [(\$850,000 - \$784,000) \times (\$4.50/\$1,000)]$	\$2,562.20	
<b>C</b>	\$2,000,000 property  \$100,000 Homeowner's exemption	<b>CURRENT</b> $(\$2,000,000 - \$100,000) \times (\$3.50/\$1,000)$	\$6,650	Owner pays <b>\$2,992.80 more</b> in annual RPT
		<b>PROPOSED</b> $[\$478,800 \times (\$2.50/\$1,000)] + [(\$784,000 - \$478,800) \times (\$3.50/\$1,000)] + [(\$1,047,200 - \$784,000) \times (\$4.50/\$1,000)] + [(\$2,000,000 - \$1,047,000) \times (\$6.50/\$1,000)]$	\$9,642.80	
<b>D</b>	\$2,000,000 (RES-A) property  Non-Owner occupied	<b>CURRENT</b> $[(\text{First } \$1,000,000) \times (\$4.50/\$1,000)] + [(\$2,000,000 - \$1,000,000) \times (\$10.50/\$1,000)]$	\$15,000	Owner pays <b>\$2,219.92 more</b> in annual RPT
		<b>PROPOSED</b> $[\$478,800 \times (\$2.50/\$1,000)] + [(\$784,000 - \$478,800) \times (\$3.50/\$1,000)] + [(\$1,047,200 - \$784,000) \times (\$6.50/\$1,000)] + [(\$2,000,000 - \$1,047,000) \times (\$13.90/\$1,000)]$	\$17,219.92	

Tax rates are subject to changes and may vary from those provided in the examples chart of this recommendation. The City would need to determine a point in time at which the percentile tiers are set to dollar amounts, so as to not allow appeals to create fluctuations in the tiers later in the year.

The Commission acknowledges this recommendation would require methods for determining the dataset to ensure equity for high-value residential properties with multiple rental dwelling units. For example, this would ensure that on a per-dwelling-unit basis a property of a single owner with 10 renters in ten units is treated the same as the individual owners of a single 10-unit condominium.

The underlying reason for considering this comprehensive residential property tax restructuring is to offer the City Council additional flexibility when setting property tax rates to meet budgetary needs or to provide targeted property tax relief.

### **III. RECOMMENDATION FOR A LAND VALUE TAX STUDY.**

The Commission discussed options for long-term equitable changes to the City's RPT structure. Land value taxation was discussed and explored by the Commission's Subcommittee on Rates & Classifications. A Land Value Tax would apply different rates to land and improvements and allow for greater consideration of the high cost of land as the most significant contributor to the high value of residential property in the City.

The Subcommittee reviewed a Portland State study<sup>5</sup> modeling the effects of a land value tax in Multnomah County, Oregon. The cost of the study was \$35,000, paid with a foundation grant. The study modeled the effects of a split-rate tax that is a property tax composed of separate tax rates on the value of the land and the value of the improvements.

The Commission received expert testimony at its October 21, 2021 meeting from Dr. Tom Gihring. His testimony included information about the Portland State study as a member of a community organization that supported its publication and provided Commissioners an opportunity to ask questions about various technical aspects regarding land value taxation.

The Commission believes its other recommendations to improve upon equitable property taxation in the City should be considered before a change as significant as changing the current RPT system to a land value tax. However, should proposals be dismissed from further consideration or not produce successful outcomes, the Commission recommends the land value tax be studied, utilizing the City's actual real property data, with a primary objective to determine the optimum split between rates on land versus improvements, as well as whether (and where) a pilot program could be successfully pursued.

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<sup>5</sup> Hulseman, Peter; Rovang, Adam; Bales, Devin; and Nguyen, Hoang The, "Land Value Tax Analysis: Simulating the Tax in Multnomah County" (2019). Northwest Economic Research Center Publications and Reports. 36. Available at: [https://pdxscholar.library.pdx.edu/nerc\\_pub/36](https://pdxscholar.library.pdx.edu/nerc_pub/36)

**IV. FOLLOW-UP COMMENTS ON COMMISSION'S 2021 *INTERIM REPORT*.**

The Commission still believes that the valuation (assessment) and appellate processes of the RPAD within the City's Department of Budget & Fiscal Services could and should be more transparent and easily understandable to members of the general public and the taxpayers, for whom they serve.

The Commission reiterates its recommendation that the RPAD develop a plan and budget to modernize its systems to be more efficient, clear and transparent, user-friendly and taxpayer-focused. We also suggest redoubling efforts in identifying funds from City, State and federal sources, as well as new potential administrative revenue sources, to facilitate continued efforts towards modernization.

The Commission stands by its recommendation to implement a supplemental "empty homes" tax upon vacant residential properties, and reiterates the testimony it provided to the City Council's Budget Committee in [CC-No. 65](#), on March 1, 2022.

The Commission appreciates the City Council's introduction and consideration of multiple measures related to recommendations from its *Interim Report* and endorse their passage and enactment:

<b>BILL</b>	<b>DESCRIPTION / STATUS</b>	<b>COMMENTS</b>
<a href="#">13</a> (2022)	Valuation (Transparency)  Passed 1 <sup>st</sup> reading; in BUDGET Committee	Specifies notices of assessment shall set forth an explanation in clear and descriptive language of the valuation, including at minimum: market data approach factors; and cost approach factors; utilized to calculate the valuation.
<a href="#">16</a> (2022)	Valuation (Public Info; Transparency)  Passed 1 <sup>st</sup> reading; in BUDGET Committee	Requires Director of BFS to provide particularized information on City website to educate & fully inform public about valuation process & appeals;  Allows for income approach to be used as appropriate, for real property classified as commercial, industrial or hotel and resort.
<a href="#">19</a> (2022)	Empty Homes Tax  Passed 1 <sup>st</sup> reading; in BUDGET Committee	Empty Homes Tax proposal, as supported by ORPTAC; with 2 key changes/concerns:  Sec. 8-___.1 (definition of "Empty Home"); and  Sec. 8-___.3 (placement of revenues.

**CONCLUSION**

The Commission humbly submits this Report to the City Council for its further consideration of the recommendations respectfully submitted herein.