REAL PROPERTY TAX VALUATION AND APPEALS PROCESSES.
Testimony

MISC. COMM. 7

BUDGET (BUD)

BUDGET (BUD) Meeting
Meeting Date: Jan 10, 2023 @ 09:00 AM
Support: 0
Oppose: 1
I wish to comment: 2

Name: Marlene De Costa	Email: marlenedecosta@gmail.com	Zip: 96825
Representing: Self	Position: I wish to comment	Submitted: Jan 7, 2023 @ 10:56 PM
Name: Joyce Riley	Email: hawaiijoy.1@hotmail.com	Zip: 96825
Representing: Self	Position: Oppose	Submitted: Jan 9, 2023 @ 01:08 PM
Name: Natalie Iwasa	Email: iwasajunk@mail.com	Zip: 96825
Representing: Self	Position: I wish to comment	Submitted: Jan 10, 2023 @ 12:06 AM

City and County of Honolulu City Council
Testimony on Real Property Tax Issues
Agenda Item: Tuesday January 10, 2023

January 6, 2023

REGARDING: Real Property Tax Assessment: City and County of Honolulu, July 1, 2023-June 30,2024
TMK: 3-9-100-069-0000 at 866 Kulani Street, Hahahione Valley, Hawaii Kai, Honolulu, HI 96825
TMK: 3-6-013-089-0000 at 5340 Uhiuhi Street, Aina Haina, Honolulu, HI 96821

Honorable Council Members:

The purpose for this testimony is to strongly protest the disconnect between policy and procedure as it relates to the last and upcoming years of real property tax assessment extreme increases. It is also to highlight how our City and State leadership have good intentions relating to helping Honolulu, Hawaii become a reasonably affordable place to reside, but the procedures do not support the policy intentions.

I will be using two parcels to illustrate this disconnect. I also refer to the disconnect as the "ooze effect". This is when one thing is done while forgetting how there are other parts to the formula that are completely neglected, thus creating an affect that is not in line with the intention.

Let me begin by providing information about two residences referred to above which can be used to illustrate the disconnect between policy intention and the exact opposite result.

5340 Uhiuhi Street:

This is owned by my mother, who is 101 years old, a 3rd generation resident in Hawaii, dating back to the 1800's. She and my father (deceased) have owned this house since 1950, exact date unknown. It is a single wall 3 bedroom, 2 bath house with a single wall 1-bedroom cottage also on the property built in the 1960's. The cottage is occupied by my brother, a 68-year-old semi-retired man. He does not pay rent but pays for his use of the utilities as is the agreement between them.

The primary house has not been renovated since the 1980's, which then included kitchen and one bath improvements, now physically and economically deficient. The primary house is being rented to University of Portland for the use by graduate teachers doing practicum at Catholic schools in this city.

It had been her primary residence until she could not sustain living independently. She currently lives in an adult care home. I give you these details since the facts are spelled out in Ordinances 13-33, 13-41 and 17-12, collectively affecting her real property tax assessment, which is now more than $1,000,000 and eliminating her exemption because she rents it out to off-set her care. This house is her primary asset with limited cash reserves.

This 2023-2024 action of eliminating her $140,000 deduction and the changing from Residential class to Residential A class will result in an annual increase in real property tax from approximately $3,400 to $5,700. Is this really the intention of the City and County of Honolulu to create affordable housing; to have an elderly owner pay for an increase in real property tax without any action on their part to intentionally add any improvements to their home? Is this action the intention of the City to force the homeowner to increase rent to cover an increase in real property tax? These tenants may not be residents of this State, but the homeowner is and is negatively affected by the Ordinance. When the Residential A classification was created, the intention was to have buyers of "high-priced" properties pay a higher mil rate. The $1M set point was established when the median sales was approximately $700,000. Now the median sales price is well over a million, but the Ordinance was not designed to be tied to any index to adjust for "high-priced" sales. Therefore, the average middle class homeowner is now caught in bureaucracy.

866 Kulani Street:

Our home was primarily built by us, its owners beginning in 1981 with a major renovation to the kitchen approximately 20 years ago. It is a 3 bedroom, 3 bath house, well maintained.

We filed for a real property tax appeal for the 2022 year, which was denied both by the assigned assessor and the Board of Review. This is what prompted this testimony. Again, the value escalated appropriately 15% for the upcoming year, 2023-2024, without our adding any value to warrant it.

It is not the fault of the Assessor or the Board of Review, but rather, the **procedures**, which is outside of their control unless authorized differently by the City Council of Honolulu and supported by the executive branch of this County.

Objections and Solutions:

These are my objections to the **procedures** currently being used by the Assessor:

1. The **values** are being based on comparable sales, but not comparable criteria:

    a. It is based on land size not topography or capacity to add value. Ours is an upslope with only a buildable area of approximately 5,000 SF, where the land size according to the records is 8,869 SF. The land value went up $112,200 from Year 2021 to Year 2022 (14.9%); the house value, $124,400 (44.9%), without any improvements on our part.

    b. No consideration for being able to add value such as an ADU either on the parcel or attached to the building, which other comparables in the area have/can do.

    c. The land non adjusted values now take precedence over the size and condition of the house.

    d. All of this is because there are owners in Hawaii Kai which sold their houses at very high prices, one of which is on our street. This new buyer is not a full time resident but travels back and forth to their origin city.

    e. There are 18 houses on our street, 15 of which are owner-occupied; 1 semi owner-occupied; and 2 rentals with Hawaii residents; the owner-occupied include 8 retirees; the rest are working middle class professionals (teacher, judge, state and federal employees). Approximately, 16 of the 18 have been owners in excess of 15-40 years. We all look forward to residing in Hawaii until the end of our lives, perhaps not on this street.

2. The **comparable sales method** is based on a small ratio of sold to non-sold houses:

    a. The best information that I could find is that there are approximately 9,000 residences in the 96825-zip code. Data on the number of sales in the specified period is approximately 3-4%. This means that the non-sold properties are now be assessed using a small percent of sales completed. This hardly seems equitable or consistent with trying to keep Honolulu affordable for its residents.

    b. Based on recent realtor information published by Better Homes Advantage Realty, the median sales for Hawaii Kai is $1,672,500 based on 28 sales, which means that 28 sellers have detrimentally affected the nearly 9,000 homeowners, which computes to less than 1%. The City & County assessor has no choice but to use this information to do these comparables, UNLESS the City Council and the Executive branch takes this issue seriously and addresses perhaps a percentage ratio of something in the range of 25-30% as a floor.

    c. These comparable appraisal methods are not as detailed as those ordered by a lending institution, which provides for comparable adjustments house to house.

3. The **exemption amounts** are not adjustable.

    a. We qualify for $140,000 exemption based on my age. There is no mechanism to adjust the exemption amount. The assessor cannot adjust the exemption upward in line with the increase percentage in the home value and it will continue this way UNLESS the City Council/Executive branch takes this under review and again ties it in line with the original intent of initiating the exemption. As I understand it, the deduction was to assist the elder homeowner who continues as an owner-occupant against the erratic real estate sales.

    b. This current deduction has no provision for adjustments tied to any indicator, such as a CPI index or an automatic adjustment in line with the valuation increase.

    c. I further recommend to the Council that the elder deduction remain in place if a person is in a license care facility. It can be the responsibility of the homeowner to provide annual authentication by the care home operator/DOH, physician and accountant. Just because the homeowner is renting it out, doesn’t mean that they are no longer an owner and by their age should qualify for the deduction. This is the case with my mother and other people in this situation, who use their largest, and in some cases their only asset to sustain their medical needs and not rely on government to pay for their care.

4. **Alternative method**: The longtime resident owner currently is affected by the actions of other owners which decide to sell their property. I recommend that the City review their entire method of adjusting value and instead increase the tax at sale closing, using a conveyance tax method as an alternative. This would require analysis for both the City’s budget and how this would affect the seller, but at least this method would be tied to realized gain instead of the current method of unrealized gains.

In conclusion, I appeal to the lawmakers and the city and state administration to consider the ooze affect when staff has only one method to do their job as mandated. In this case, it is real property tax. The Assessment skyrocketed but the method, the baseline and the exemptions did not compensate for the rise. Although as the Mayor was recently quoted, there is no intention to ask for a real property tax increase; this statement is a bit misleading. We all know that real property taxes consist of three components:

1. The assessed value.
2. The mil rate.
3. A qualified exemption.

The tax billing is based on these 3 components. In our situations at the referenced addresses, we will be getting a higher tax bill, based on the facts. So will the 18 owners on our street and my mother.

However, we will not be filing an appeal because it is beyond the appeal board's scope to take the real issues under consideration and connect the dots between policy and procedure.

The purpose of real property tax is to pay for the essentials of running this city, which we are happy and privileged to do, but in a reasonable fashion. The assessments in Hawaii Kai (and I am sure in many other established neighborhoods) shot up, but the needs of the community did not. There are no extra streets, added fire stations, police demands, to name a few essentials.

Each owner will have to decide how to pay for the increases from out our disposable income: less retail purchases, less donations to non-profits, less travel to the neighbor islands, less restaurant meals. This constitutes the ooze effect. Less spending affects the employees of all these industries. This makes Honolulu and the entire state less attractive to live here. Period! We are moving toward more expensive housing than affordable housing, exactly what the Mayor, the City Council and the Governor speak so fervently about.

Only the Honolulu City Council and the executive branch can collaborate and make sure that the intended policies are matched by procedures that reflect the original policy intention. I do understand how difficult it is to balance the cost of operating a company and meet the needs of clients. I did it for years. It is not easy, and this City doesn't have the tools that private industry can employ. But the bottom line is fairness to the taxpayers.

We will be watching to see how the Mayor and the City Council attack the inconsistencies and create procedures that match the policy intentions. Please act with urgency. This is all I can ask.

Respectfully submitted,

Thomas and Marlene DeCosta
866 Kulani Street
Honolulu, Hawaii 96825

808.228.7905

To: Honolulu City Council
Re: Proposal to Raise Property Taxes
From: Joyce Riley
836 Hokulani ST
Honolulu, HI 96825

I am against raising property taxes in the State of Hawaii for the following reasons:

1. Higher property taxes will eventually price retired people and local residents who purchased homes many years ago at lower prices out of their homes.
2. How will retired people on a fixed income pay more every year? Pensions and Social Security will not be able to keep pace.
3. The residents should not have to pay for the rail's enormous cost overruns, poor accounting, and planning (trains do not fit the rails and columns are cracked). Studies show most residents were opposed to the rail. https://www.civilbeat.org/2021/05/civil-beat-hnn-poll-majority-of-oahu-voters-oppose-rail-project/
4. Hawaii *already* has the highest cost of living in the nation, why stress the residents even more by increasing property taxes? Will homeowners be forced to choose between paying for groceries, healthcare, or taxes? See reference here. https://www.marca.com/en/lifestyle/us-news/personal-finance/2022/10/22/63539dddca474188368b45f7.html
5. For those who say Hawaii has the lowest property taxes in the nation, I respond that we have the highest housing values in the nation, thus highest taxes. Our average home price was over $1,000,000 in December of 2022. Most of the other states home median price was less than half of that. Property taxes on a million-dollar home will be far higher than those on a home selling for the median price of $477,000 in Nevada.
6. Non-residents and foreigners are buying up property as investment and driving up our real estate prices. Homes should be homes, lived in by owners and permanent residents. Investors are contributing to the high price of property, utilize our infrastructure and take great profits when they leave. They do not contribute to our community the way residents do.
7. Continual increases in taxes will eventually increase our houseless population.
8. Hawaii already has one of the highest rates of houselessness in the nation. From https://thehomemoreproject.org/blog/the-hawaiian-homelessness-crisis
"Along with this, the cost of food went up by 35% in 2015 alone, gasoline prices continue to increase with little to no options for public transportation, and the cost of electricity is 33% higher in Hawaii than in the rest of the United States. When pairing these factors with the fact that 60% of jobs on the islands pay less than $20 an hour, and ⅔ of jobs pay less than $15 an hour, it is easy to see why Hawaiians are struggling financially and are facing threats of lost housing. Experts estimate that up to half of the

Hawaiian citizens are just one to two paychecks away from homelessness."

Please consider ways to limit expenses along with better accounting to avoid rasing our property taxes. Another option is to greatly increase the homeowner's exemption.

Sincerely,

Joyce Riley

TO: Members of the Budget Committee of the Honolulu City Council

FROM: Natalie Iwasa
808-395-3233

DATE: Tuesday, January 10, 2023

SUBJECT: Real Property Tax Valuation & Appeals Processes - **COMMENTS**

Aloha Chair Cordero and Councilmembers,

Thank you for allowing testimony on the discussion of real property tax valuations and the appeals process. Unless you make changes to the system, property owners will struggle to pay their tax bills, and tenants will struggle to pay rent, after landlords raise rents in order to cover increased taxes.

Attached are a preliminary tax valuation report for next fiscal year and the final report for FY 2014 - 2015. The number of properties included in Residential A has grown from about 7,700 in FY 2014 – 2015 to 29,800 for next fiscal year. Net assessed values for Res A have **grown by 242%** over that period, while homeowner-occupied residential properties have grown 54%. When compared to this year, net assessed values for Res A properties have increased 40%, while homeowner-occupied residential properties increased 9%. **The city is motivated by the current tax structure to get as many homes as it can into the Residential A classification.**

Most of these homes are not luxury homes. They are lived in by locals who cannot afford to purchase their own homes. They will likely see their rents increase, as landlords are left with little choice but to raise rents to cover increased real property taxes.

It was reported in Sunday's *Honolulu StarAdvertiser* that the median home price for single-family homes on Oahu in 2022 was $1,105,000. [1] Since it is unlikely that the city will remove the Res A classification, please increase the threshold, and tie it to an index. To offset the loss in revenue, remove certain exemptions, e.g., "charitable" organizations such as labor unions and business leagues. (Those exemptions should be removed regardless of what happens with Res A.)

In addition, the city provides to owners the comparable sales (comp sales sheet) that it uses to value properties, but it charges renters a fee to obtain this information. Renters have a vested interest in the assessed value of the homes they live in and should be provided this information in the same manner as homeowner occupants – in electronic format free of charge.

[1] "Downturn gripped 2022's Oahu home sales," *Honolulu StarAdvertiser*, January 8, 2023.

Testimony from Natalie Iwasa
1/10/23
Notes in blue are from Natalie Iwasa

CITY and COUNTY of HONOLULU REAL PROPERTY TAX VALUATION for FISCAL YEAR 2023-2024
(In Thousands of Dollars)

Land Use Class	Gross Valuation As of 12/15/2022	Total Exemptions	Net Valuation	50% Of Appeal Value	Number Of Appeals	Valuation For Tax Rate	Tax Rate Per $1,000 Value	Amounts Raised By Taxation
Residential 248,400 3% dec. PY 256,924	$ 230,152,066 9% inc over PY	$ 31,895,916	$ 198,256,150 9% inc.	average net valuation $798,130				
Residential A Tier 1 Residential A Tier 2 29,800 43% inc. PY 20,763	$ 46,882,628 39% inc over PY	$ 1,451,329	$ 45,431,299 40% inc.	average net valuation $1,524,540				
Commercial	$ 28,782,096	$ 4,538,526	$ 24,243,570					
Industrial	$ 15,731,615	$ 1,154,984	$ 14,576,631					
Agricultural	$ 1,550,336	$ 146,844	$ 1,403,492					
Vacant Agricultural	$ 43,299	$ 106	$ 43,193					
Preservation	$ 564,629	$ 67,269	$ 497,360					
Hotel/Resort	$ 18,024,967	$ 73,211	$ 17,951,756					
Public Service	$ 1,337,901	$ 1,333,803	$ 4,098					
TOTAL	**$ 343,069,537** 12% inc. over PY	**$ 40,661,988**	**$ 302,407,549**	**$ -**	**0**	**$ -**		**$ -**

Real Property Tax Valuation

FY 2014 - 2015

Testimony from Natalie Iwasa
1/10/23

(In Thousands of Dollars)

Land Use Class	# of Records	Gross Valuation	Total Exemptions	Net Valuation	50% Of Appeal Value	Number Of Appeals	Valuation For Tax Rate	Tax Rate Per $1,000 Value	Amount Raised by Taxation
Residential	255,525	$148,996,793	$20,766,003	$128,230,790	$250,178	1,255	$127,980,612	$3.50	$447,932
Commercial	6,283	$17,597,309	$2,193,597	$15,403,713	$253,294	320	$15,150,419	$12.40	$187,865
Industrial	4,016	$8,983,767	$700,454	$8,283,313	$130,139	92	$8,153,174	$12.40	$101,099
Agricultural	2,799	$1,294,561	$117,128	$1,177,433	$46,968	131	$1,130,465	$5.70	$6,444
Vacant Agricultural	128	$80,561	$0	$80,561	$1,015	6	$79,546	$8.50	$676
Preservation	871	$502,821	$47,218	$455,603	$10,565	13	$445,038	$5.70	$2,537
Hotel/Resort	7,343	$8,606,608	$25,346	$8,581,262	$387,405	99	$8,193,857	$12.90	$105,701
Public Service	472	$820,217	$820,217	$0	$0	1	$0	$0.00	$0
Residential A	7,655	$13,853,970	$570,142	$13,283,828	$81,389	224	$13,202,440	$6.00	$79,215
TOTAL	**285,092**	**$200,736,608**	**$25,240,105**	**$175,496,503**	**$1,160,953**	**2,141**	**$174,335,550**		**$931,469**

(1) Prepared in accordance with ROH Section 8-2.2, Assessment Lists