BILL024(23)
Testimony

MISC. COMM. 183

COUNCIL

COUNCIL Meeting

Meeting Date: Apr 19, 2023 @ 10:00 AM

Support: 0

Oppose: 0

I wish to comment: 2

Name: Ted Kefalas	Email: tkefalas@grassrootinstitute.org	Zip: 96813
Representing: Grassroot Institute of Hawaii	Position: I wish to comment	Submitted: Apr 18, 2023 @ 10:41 AM
Name: Choon James	Email: ChoonJamesHawaii@gmail.com	Zip: 96762
Representing: CountryTalkStory.com	Position: I wish to comment	Submitted: Apr 19, 2023 @ 08:08 AM

GRASSROOT
INSTITUTE OF HAWAII

April 19, 2023
10 a.m.
Honolulu City Council Chambers

To: Honolulu City and County Council
Councilmember Tommy Waters, Chair
Councilmember Esther Kiaʻāina, Vice Chair

From: Grassroot Institute of Hawaii
Ted Kefalas, Director of Strategic Campaigns

RE: Bill 61 (2022), Bill 24, Bill 25, Bill 27 and Bill 29 (2023) — RELATING TO REAL PROPERTY TAXATION

Comments Only

Dear Chair and Committee Members:

The Grassroot Institute of Hawaii would like to offer its comments on Bill 61 (2022), Bill 24 (2023), Bill 25 (2023), Bill 27 (2023) and Bill 29 (2023), all of which would adjust the tax classification of long-term rental properties.

>> Bill 61 (2022) would abolish the Residential and Residential A classes and would create "Owner-occupied" and "Nonowner-occupied" classes in their place.

>> Bill 24 (2023) would create a "Long-term lease" class for properties that are leased for 12 months or longer consecutively.

>> Bill 25 (2023) would classify long-term rentals as Residential, exempting rental properties valued at $1 million or more from the Residential A class.

>> Bill 27 (2023) would increase the Residential A tier threshold from $1 million to $1.3 million and create another tier for the value of the property in excess of $2 million; it would also create a "Long-term rental" class for properties that are leased for 12 months or longer consecutively.

>> Bill 29 (2023) would increase the Residential A tier threshold from $1 million to $1.5 million and create another tier for the value of the property in excess of $5 million.

Since all five bills address the taxation of long-term rental properties, we thought you might find it helpful if we condensed our testimony to a single document.

In short, the Institute believes there are two ways the Council could effectively classify and tax long-term rentals.

First, the Council could adopt Bill 25, which would classify all long-term rentals as Residential, regardless of their value.

The advantage of this approach is that rental owners would be taxed the same as homeowners, removing the disparity between Residential and Residential A properties, the latter of which applies to nonowner-occupied properties worth $1 million or more, and many of which are used as long-term rentals.

Second, the Council could pass Bill 61, in addition to another bill, such as Bill 24 or Bill 27, that would create a new class specifically for long-term rentals.

On its own, Bill 61 would not prevent rentals being taxed at high rates. Its language is clear that most rental properties — except low-income rentals or dedicated properties — would fall into the Nonowner-occupied class and be vulnerable to a much higher rate than the Owner-occupied class. Creating a new class specifically for long-term rentals would avoid this concern.

In addition, we want to point out how creating a new class for long-term rentals without passing any other reforms could lead to enforcement problems.

For example, landlords whose properties were valued at less than $1 million would have little incentive to file paperwork to reclassify their properties as long-term rentals, since those properties would otherwise remain in the Residential class.

In lieu of offering a tax incentive such as a rental exemption, the County would have to offer an even lower rate for long-term rentals valued under $1 million than the Residential rate to encourage landlords to move their properties to the new class.

Otherwise, similarly valued rental properties at some point might face different tax bills simply because they are in different tax classifications — a situation that bears a striking resemblance to the current problem with rentals valued at $1 million being subject to much higher tax bills than those valued at $999,999.

Finally, the Institute supports increasing the Residential A threshold from $1 million to a higher value to account for inflation and the ever-increasing property assessments.

The Residential A classification was tiered beginning in fiscal year 2018,[1] when the median value of a single-family home was just $800,000.[2] Since then, the median value of a Honolulu home has increased by more than $200,000, while inflation has increased by more than 20%, pushing many more Honolulu homes into the higher Residential A category.[3]

Thank you for the opportunity to testify.

Sincerely,

Ted Kefalas
Director of Strategic Campaigns
Grassroot Institute of Hawaii

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[1] "Residential A," Real Property Honolulu, accessed April 17, 2023..
[2] "Statewide Housing Statistics," Title Guarantee Hawaii, October 2018, p. 1.
[3] "CPI Inflation Calculator," U.S. Bureau of Labor Statistics, accessed April 18, 2023. Inflation rate between March 2018 and March 2023.

REGULAR MEETING
CITY COUNCIL CHAMBER
5TH SESSION
WEDNESDAY, APRIL 19, 2023
10 A.M.

Real Property Taxes

Aloha Chair Tommy Waters, Vice-Chair Esther Kia'aina, and city council members:

We need following general parameters be deliberated to truly help the residents of Oahu.

First, we need to decide whether we want to help the residents here or to continue to make decisions that will push more and more residents out of Hawaii. We have all known neighbors who have left. Example: AMERICAN IDOL https://www.youtube.com/watch?v=S_MAesZsnMk Iam Tongi from Kahuku revealed to the whole nation in February 2023 that his family was priced out of paradise. He's now living in Washington. He's shown here helping another party sell this t-shirt.

Some parameters to deliberate property taxes:

1. Hawaii has a top median property value of $1million. Hawaii continues to have one of the highest credit card debts, mortgage debts, but lower salary income compared to states like Washington and CA.

2. The repeated fallacy that Hawaii has one of the cheapest property taxes in the nation cannot be an excuse for politicians and others to impose higher and higher property taxes.

3. County RP taxes appear to be low because it does not pay for school taxes. But whether it's STATE income taxes or county taxes, the sources of taxes are taken from the same pool of residents.

4. Furthermore, other states may have a higher property rate but some states have NO income taxes. Many states have lower-priced homes.

5. Hawaii also has very high home insurance rates, maintenance fees rates, construction costs and materials, food, gas, vehicles, and so on.

APPRAISAL VALUATION

6. The county property valuations have basic appraisal valuation irregularities. Land APPRECIATES in value. Improvements have shelf life that DEPRECIATES in value. Most of the valuations that we have reviewed show no such consistent basic appraisal valuation. Many improvements show enormous valuation increase that contradicts the actual conditions of the homes and structures. *" All I did was mow my lawn. I need a new roof, and the kitchen is original. But my property went up $400,000,00!"*

7. A lot of the valuations do not reflect actual market values. But, obviously higher valuations benefit the city because it produces more revenues.

8. It's bias to think that a $1 million or $2 million or a $3 million or a $4 million homes is automatically a luxury home and those owners must be rich or affluent. Many of these million dollar homes are owned by

kama'aina who have lived here for generations or decades. They are paper rich but cash poor and laden with escalating costs.

9. Too many of Hawaii property owners are burdened by gentrification. Not many residents want to sell and move out of Hawaii. But many have been forced to do so due to escalating costs of living.

10. These solutions must be long range. Does the city want to push out the middle class?

11. Does the city want to see kama'aina neighborhoods become gentrified to the point of losing the residents who make Hawaii Hawaii?

12. Residential A is a problematic program. I remember testifying before Ann Kobayashi's Budget Committee that $1million threshold is not a luxury home. Tenants will end up being negatively impacted because landlords cannot bear the taxation burdens alone.

13. Landlords who rent to long-term tenants must be valued because they are providing a housing service to the city. Developers and others in the housing sector received millions of dollars in tax incentives or grants and so on.

14. If the city is serious about stabilizing the housing crisis, it needs to have a paradigm shift. Residents are not Money Trees. Many are working paycheck to paycheck and holding 2-3 jobs.

15. Keep in mind about this irony. With time, the property generally appreciates in valuation, the costs of property taxes, maintenance, insurances, utilities INCREASES. Health and other expenses increases. However, the retirees' earning power DECREASES.

14. Again, it's bias to think that all kupuna are affluent and have a steady stream of income to keep up with the costs of living.

16. Raising the exemption helps a little but when the ratio of the assessment valuation exponentially outpaces the bandage $300.00 proposal is insufficient.

17. The city needs to shed the mentality that the only option a city has is to raise taxes, fees and more taxes. The city needs to trim the pork and fat in its budget.

18. Some politicians talk about forgoing city services or raising taxes as the only option. But it must be noted that in 2012, the PORTER REPORT for the Honolulu Rapid Transit System warned the city them that the city cannot afford to support its core services and the costs of the Rail.

SUGGESTIONS:

Supposedly, the total value of all real property increased to $343.07 billion from $305.27 billion, an increase of 12.4%. The city also has COVID funds.

1. **REDUCE** the CLASS (A) Residential rate to $2.00 for this fiscal year to offset sharp valuation increases this year. Many owners are still recovering from COVID impacts.

2. Resident A owners who can show a long-term one-year lease at affordable rental rates should be exempted from the Residential A rates but at the $3.50 rate. They are providing a housing service to residents. The city provides millions of dollars of tax and other incentives to developers to create “affordable housing”. Reward these existing landlords who have been providing stable housing service to long-term residents.

3. Property owners who are 65 years and up and have lived in Oahu for twenty years or more should be provided a **property tax cap** with no further property tax increases for the kama’aina ohana. This will stabilize the housing for intergenerational kama’aina households. This benefit becomes unavailable when the property is entirely sold to a non-familial buyer.

4. Owner-occupant Property owners who are 65 years and up and have lived in Oahu for twenty years or more are exempted from the $6.50 property tax rate for Bed and Breakfast. Not every one will do it but those who do it probably need that income to support themselves. Keep in mind that most retirees appreciate their own privacy in their homes. It takes much effort to be a host.

All this can be done if there is a political will to put our Residents First. The city can trim its pork and fat from its budget. We have observed the Honolulu city budget sessions for over a decade.

Mahalo,
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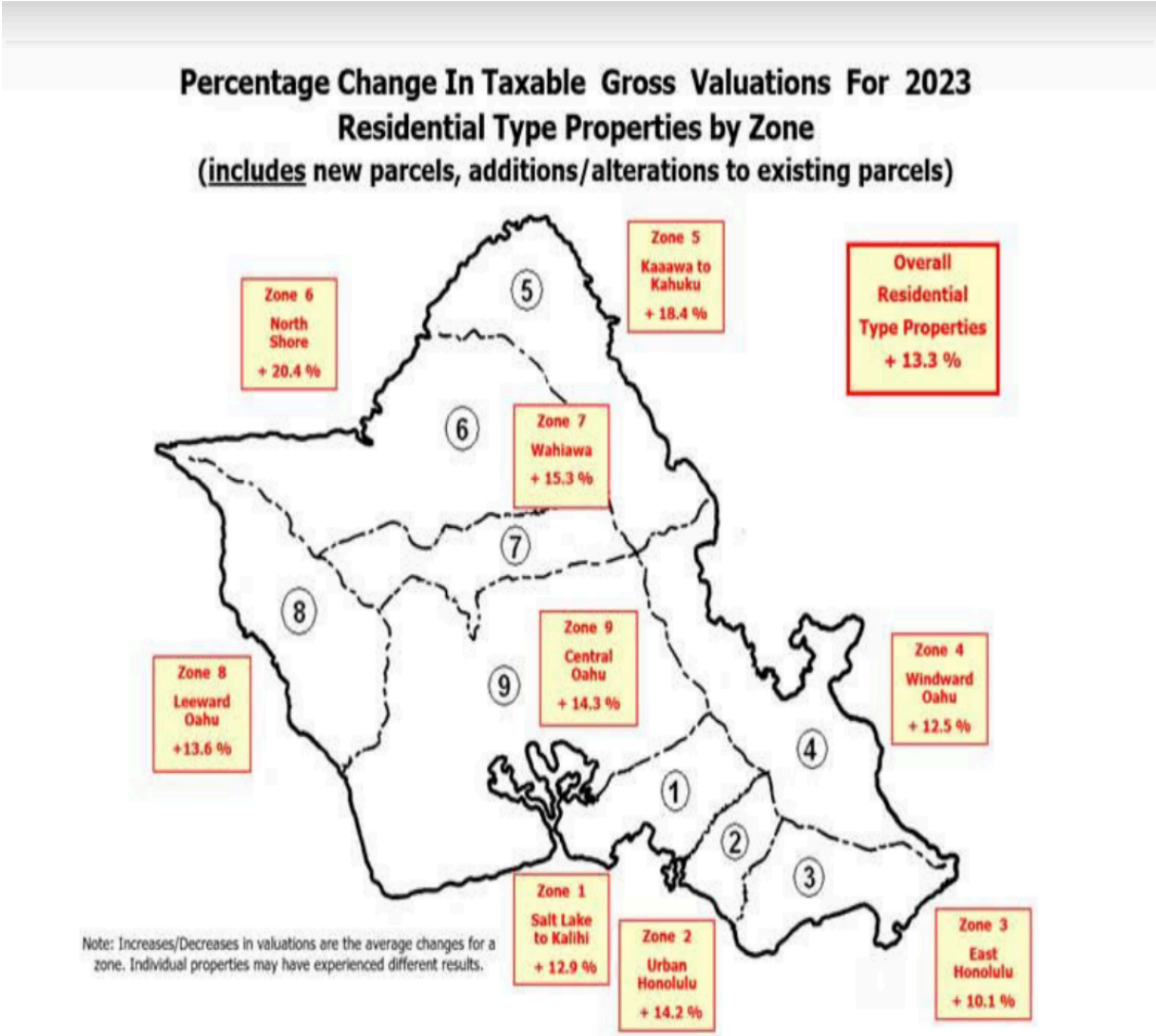

Homeowners in areas like Oahu's North Shore and towns like Kahuku face property assessments of 20% or more, which are driving up their tax bills even as tax rates remain flat.

Some of our property increased by 30% - 50% when our improvements are in need of major renovations and upkeep.

Honolulu Property Tax Revenue

Fiscal Year 2014 - 2023

*In thousands

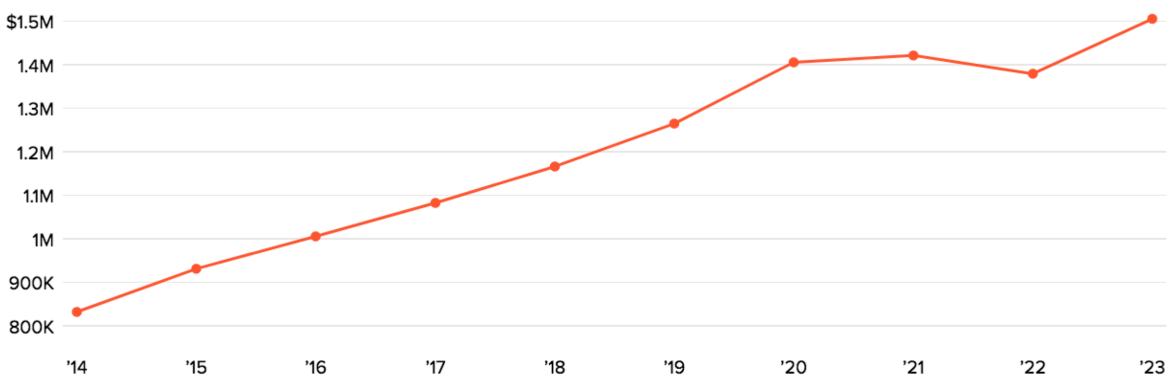

Chart: Civil Beat/2023 • Source: City and County of Honolulu

Despite rates remaining stable, increases in property assessments have driven property tax collections in Honolulu up more than 80% in the past decade, rising from just over $800 million in 2014 to over $1.5 billion in fiscal 2023. Skyrocketing assessments suggest the increases in 2024 will exceed those of recent years.

https://www.civilbeat.org/2023/01/honolulu-homeowners-are-shocked-at-new-property-tax-bills-heres-something-that-could-help

Property valuation can only go up. There may be cyclical dip trends but it always goes up. We are already numb to hearing about million dollar shacks.