CITY COUNCIL
CITY AND COUNTY OF HONOLULU
530 SOUTH KING STREET, ROOM 202
HONOLULU, HAWAII 96813-3065
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June 1, 2023

Council Chair Tommy Waters
Members of the City Council
530 S. King Street, Room 202
Honolulu, HI 96813

Dear Chair Waters,

SUBJECT: PERMITTED INTERACTION GROUP REPORT
Resolution 23-40, CD1, Establishing a Permitted Interaction Group to Consider Matters Relating to Real Property Taxation.

Resolution 23-40, CD1, in accordance with Section 92-2.5, Hawaii Revised Statutes, established a Permitted Interaction Group ("PIG") to investigate matters relating to real property tax bills seeking to amend the Revised Ordinances of Honolulu 2021.

The members of your Permitted Interaction Group respectfully submit this report to the City Council in accordance with Resolution 23-40, CD1.

Mahalo,

RADIANT CORDERO
Councilmember, District 7

TOMMY WATERS
Councilmember, District 4

ESTHER KIAʻĀINA
Councilmember, District 3

MATT WEYER
Councilmember, District 2

COUNCIL COM. 155

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SUBJECT: PERMITTED INTERACTION GROUP REPORT, DATED JUNE 1, 2023
Resolution 23-40, CD1, Establishing A Permitted Interaction Group to Consider Matters Relating to Real Property Taxation

Under Resolution 23-40, CD1, in accordance with § 92-2.5, Hawaiʻi Revised Statutes ("HRS"), the Honolulu City Council ("Council") established a Permitted Interaction Group ("PIG") comprised of Councilmembers Esther Kiaʻāina, Matthew Weyer, Radiant Cordero, and Tommy Waters. The Resolution authorized the PIG to investigate matters relating to real property tax ("RPT") bills seeking to amend the Revised Ordinances of Honolulu 2021 ("ROH").

Establishment of the PIG enabled the designated members to conduct a concentrated and in-depth investigation into the City and County of Honolulu's ("City") system of real property taxation, engage in discussions, and make recommendations, without commitment. This report is being transmitted to the full Council for Councilmembers to act upon as they see fit, in accordance with their roles and responsibilities to the people of Oʻahu.

The recommendations contained in this report can only be implemented by amending the ROH, which can only be done through a duly noticed meeting of the Council.

To guide the PIG discussion, the PIG reviewed a number of real property tax measures, a list of which can be found in Appendix A. The PIG held seven meetings between May 1, 2023 and May 31, 2023, including a Public Meeting held on May 16, 2023. Public testimony from the May 16, 2023 meeting can be found in Appendix B.

EXECUTIVE SUMMARY

Consistent with the goals identified by the PIG — to provide tax relief to those who need it the most, support housing stability and address housing shortages for local residents and families, fairly allocate tax burdens and provide relief to households impacted by significant increases to property values, and ensure the City can continue to meet its obligations and growing community needs for City services— the PIG recommends:

- The Council consider immediately updating the real property tax homeowner exemptions and the income eligibility threshold for the real property tax credit by agendizing for third and final reading two measures identified in this report, including:
  - BILL 37 (2022), CD1 to increase the income eligibility threshold from $60,000 to $80,000; and
  - BILL 40 (2022), CD1, together with a proposed FD1, to increase the homeowners exemption from $100,000 to $120,000 and raise the senior exemption from $140,000 to $160,000.

- The Council take immediate steps to move forward discussion on policies that:
  - Amend existing real property tax exemptions, dedications, credits, compromises and the minimum tax, including in particular concepts and principles found in Bill 30 (2023).
  - Increase transparency and encourage discussion whenever assessed valuations are set to increase substantially, including in particular concepts and principles found in Bill 22 (2023).
  - Require notice and details to homeowners of real property valuation assessments, including in particular concepts and principles found Bill 3 (2022).
  - Revise existing residential property tax classifications, including in particular policies that would amend Residential A thresholds and tiers, incentivize property owners to provide long-term rentals, and disincentivize vacant residential properties to meet the substantial need for housing units for local residents and families. The PIG specifically noted that the Council should look closer at the related concepts and principles found in Bill 27 (2023) and Bill 9 (2022).
  - Restructure or overhaul the existing real property tax structure into one that is more fair and equitable, clear and transparent, and administratively feasible. The PIG specifically noted that the Council should look closer at how the real property tax structure handles owner-occupant and non-owner-occupant properties (including concepts and principles found in Bill 61 (2022)), long-term rental properties, progressive tiers/brackets, and apartment buildings. Additionally, the Council may benefit from further discussion surrounding the assessment process and potential improvements.

In order to allow the Council to consider immediate action on the homeowner exemption and real property tax credit measures, the PIG must dissolve and submit its report to the Council. However, given the number of considerations still on the table and the productive discussions on these topics to this point, the PIG strongly recommends the immediate convening of one or more new PIGs to more fully investigate and discuss policies mentioned above.

The PIG also notes that the Council is considering immediate residential real property tax relief options outside the scope of the PIG, including one-time real property tax credits, in concert with the City's Executive Operating Budget and Program for the Fiscal Year July 1, 2023 to June 30, 2024 (Bill 11 (2023)).

BACKGROUND

The City is granted the authority to assess, impose, and collect real property taxes based on Article VIII, § 3 of the Constitution of the State of Hawaiʻi. The City achieves this through ROH Chapter 8: real property tax.

Real property taxation operates on a calendar in sync with the City's fiscal year, from July 1 to the following June 30. All real properties are assessed for valuations on September 30 of the preceding tax year for which the exemption is claimed. Landlords and homeowners must have submitted their claim for exemptions or dedications by this date.

On or before December 15, the Real Property Assessment Division of the City's Department of Budget and Fiscal Services ("BFS") sends an annual notice of assessment to property owners, indicating the assessed value of the property, the general land class of the property, and the amount of exemption, if any. Property owners may file an appeal on or before January 15.

On or before January 31, the BFS Director shall prepare from the records of taxable properties a list of all assessments made. The assessment list shall identify the property assessed by its tax key and shall set forth the general class of the property, the valuation of the real property, the amount of exemption allowed on the real property, and the net taxable value of the real property. There shall be noted upon such lists all appeals taken pursuant to and the amount involved in each case. (ROH § 8-2.2)

The Administration then must introduce a City Budget to the Council by March 2, and that budget will include the real property tax rates. Except as exempted by ordinance, or as otherwise provided for, all real property shall be subject to a tax upon 100 percent of its fair market value, determined in the manner provided by ordinance, at such rate as shall be determined in the manner provided in ordinance. (ROH § 8-6.1)

The Council shall annually set the real property tax rates in accordance with the classes of real property established. A resolution setting the real property tax rates must be adopted by the council during the same meeting at which the applicable legislative and executive budget bills are passed on third reading. (ROH § 8-11.1)

For real property tax purposes, "tax year" means the fiscal year beginning July 1 of each calendar year and ending June 30 of the following calendar year. Real property shall be assessed as of October 1 preceding each tax year and taxes shall be levied thereon. The fiscal year begins on July 1, and real property taxes are due in August and February for that fiscal year.

In the upcoming 2023-2024 real property tax year, there was a 14.1% increase in overall assessed valuations. These increases, while significant on their own, were made more impactful due to their uneven distribution across the island of O'ahu. Concerns around tax impacts were ignited when numerous homeowners, disproportionately concentrated in specific locations, saw their assessments skyrocket in an unanticipated and possibly anomalous manner. Because tax bills are calculated by multiplying real property tax rates by assessed values, many residents may be struck with substantial and unexpected tax burdens. In response, Councilmembers introduced a number of bills pertaining to real property taxation to assist homeowners impacted by the increases, and also urged the Budget Chair to hear relevant measures introduced in 2021 and 2022. Due to the abundance of proposals and the importance of this issue before the Council, the PIG was created and tasked with identifying measures the Council could consider to reduce the real property tax burden for O'ahu residents.

Through its conversations and review of approximately 30 real property tax bills, the PIG identified the following goals for the initial RPT PIG:

1. Provide tax relief to those who need it the most and mitigate property tax impacts on the cost of housing for the City's most vulnerable groups, such as low-income households and seniors on fixed incomes.
2. Support housing stability and address housing shortages for local residents and families (through home ownership and the availability of long-term rentals).
3. Fairly allocate tax burdens, including through addressing over- and under-taxation of certain property owners and providing relief to those impacted by significant and anomalous increases to property valuations.
4. Ensure the City can continue to meet its obligations and the growing community need for City services.

In furtherance of these goals, the PIG discussed the following:

- Updates to the income-based real property tax credit, including Bill 31 (2022), Bill 37 (2022) and Bill 38 (2022)
- Updates to the homeowner exemptions, including Bill 40 (2022), Bill 35 (2022) and Bill 7 (2022)
- Amendments to real property tax exemptions, dedications, other credits, compromises, and the minimum tax, including Bill 42 (2021), Bill 35 (2022), Bill 60 (2022), Bill 30 (2023), Bill 59 (2022), and Bill 9 (2023)
- Revision of existing residential real property tax classifications, including Bill 20 (2021), Bill 49 (2021), Bill 9 (2022), Bill 24 (2023), Bill 25 (2023), Bill 27 (2023), Bill 29 (2023)
- Restructuring and overhauling the existing real property tax structure, including Bill 61 (2022), Bill 62 (2022)
- Otherwise amend ROH chapter 8, including Bill 3 (2022), Bill 6 (2022), Bill 47 (2022), Bill 22 (2023)

Income-Based Real Property Tax Credit

The real property tax credit, codified as ROH § 8-13.2, is designed to provide relief to income-qualified homeowners who may struggle to pay their real property taxes. In order to be eligible, homeowners must have a home exemption, and therefore live in their homes, they cannot own any other property, and the combined gross income of the homeowners can not exceed a certain amount — currently $60,000. The tax credit is the difference between 3% of the homeowner's income and the amount of the assessed real property tax for the property. The lower the income and the higher the property taxes, the higher the tax credit.

In an effort to account for rising cost of living and inflation, Councilmembers introduced Bill 31, Bill 37, and Bill 38 in 2022. Different versions of these measures would update the income eligibility either to 1) amend the income eligibility threshold from a combined income of $60,000 to 80% of the area median income ("AMI") established for the applicable household size; 2) increase the combined income eligibility threshold from $60,000 to $70,000, $80,000, or $90,000; or 3) amend the income eligibility threshold from a combined income of $60,000 to 80% or 100% of the area median income established for a two-person household in Honolulu. In 2023, various drafts of these measures were heard by the Budget Committee. The Committee ultimately moved out Bill 37 CD1 — which would increase the combined income eligibility threshold from $60,000 to $80,000, with a recommendation that it pass third reading.

PIG members discussed the need for updating the real property tax credit income eligibility threshold to account for increased cost of living and inflation. The income threshold was last updated in 2014, when the threshold increased from $50,000 to $60,000. The PIG also discussed how the real property tax credit helps some of the City's most vulnerable — those that make substantially less than the median income for the area, including seniors on fixed incomes, and that increasing the threshold would expand eligibility to more homeowners. Increasing eligibility will allow the City to assist more struggling homeowners to stay in their homes and remain in their communities. Finally, the PIG noted that the Oʻahu Real Property Tax Advisory Commission ("ORPTAC") also recommended adjustments to the City's real property tax credit to adjust for inflation and the statewide property valuations in its June 30, 2022 Final Report (Council Communication 224 (2022)) ("ORPTAC Report").

The PIG analyzed the AMI when the amount was last increased in 2014, finding that at that time, $60,000 was between 100-110% AMI for a single household and approximately 80% AMI for a household of 2. PIG members examined current data and found that an 80% AMI for a household of 2 is $83,850 and 100-110% AMI is between $85,000-$93,500. This led to a robust conversation around the importance of helping homeowners in this income category, and what the fiscal implications would be.

The Director of the Department of Budget and Fiscal Services shared that the Department does not obtain data on homeowners' income, including those that have an income of or lower-than $70,000, $80,000, and $90,000. Data is also not collected on how many homeowners meet the other real property tax credit criteria, and therefore the City is unable to determine the fiscal impacts of increases to the real property tax credit in advance of its implementation.

The PIG also discussed the need to look at the supporting documents required to support a real property tax credit application. Members of the public submitted testimony to the PIG with concerns that the City requires excessive supporting documents and inclusion of income that should be excluded. The PIG noted that future discussions on these requirements may be warranted.

In furtherance of the PIG's goals to mitigate property tax impacts on the cost of housing for the City's most vulnerable and support housing stability, and based on the income levels when the rate was last increased in 2014, the PIG recommends immediate action by the Council to update the existing City real property tax credit through agendizing of Bill 37 (2022), CD1, which would increase the the income eligibility threshold to $80,000.

Homeowner Exemption

The Homeowner Exemption, set forth in ROH § 8-10.3, is designed to provide relief to homeowners who occupy their homes as their primary residence. The exemption reduces the amount of property taxes that homeowners owe by exempting a certain amount from being taxed, making it more affordable for them to own and maintain their homes. The exemption is also intended to encourage homeownership and to help stabilize neighborhoods by providing a financial incentive for homeownership. Currently, the exemption amount is $100,000 for all homeowners who are approved for a homeowner exemption. Homeowners are qualified for a $140,000 exemption if they are 65 years of age or over on or before June 30 of the preceding tax year. Additionally, as discussed in subsequent sections of this report, homeowners who have the homeowners exemption on parcels with less than two single family homes or condominiums, no matter their value, enjoy lower tax rates because they would be classified as Residential instead of Residential A.

In an effort to account for rising property values and inflation, Councilmembers introduced Bill 7, Bill 35, and Bill 40 in 2022. Different versions of these measures would increase the standard homeowner exemption from $100,000 based on inflation or would increase it from $100,000 to $110,000 or $120,000. Different versions of these measures would also increase the homeowner exemption for those 65 years and older from $140,000 to $150,000, $160,000 or $180,000. In 2023, the Budget Committee heard and moved out Bill 40 (2022), CD1 — which would increase the standard homeowner exemption to $120,000 and the homeowner exemption for those over 65 years to $150,000. The Budget Committee recommended that the measure pass third reading.

To inform this decision, the PIG investigated the cost of these additions with BFS. If the standard homeowner exemption is increased from $100,000 to $120,000 at a tax rate of $3.50 per thousand dollars of value, the City will realize a revenue loss of $5.3 million in Fiscal Year 2024 ("FY24"). If the homeowner exemption for those aged 65 or older is increased from $140,000 to $160,000 at a tax rate of $3.50 per thousand dollars of value, the City will realize an additional revenue loss of $5.3 million in FY24.

PIG members discussed the need for updating the homeowner exemption to account for the increased cost of living and inflation. The last time the homeowner exemption was increased was in 2019, pursuant to Ordinance 19-7, when the standard homeowner exemption increased from $80,000 to $100,000, and the homeowner exemption for those over 65 years increased from $120,000 to $140,000. The PIG also discussed that with a tax rate of $3.50 per thousand dollars of value, the current home exemption reduces the property taxes owed by all owner-occupants by $350 and seniors over 65 by $420, and that for every $10,000 increase to the homeowner exemption, homeowners will save $35. The PIG noted that increasing the homeowner exemption furthers the goal of supporting housing stability and providing relief to those impacted by significant increases to property valuations.

Finally, the PIG noted that the ORPTAC also recommended adjustments to the homeowner exemption to account for inflation and statewide property valuations in the ORPTAC Report. Going forward, the PIG recommends that the Council continue conversations surrounding the optimal role and structure of the homeowner exemption, including its appropriate value and the most efficient way to update its value over time.

<u>Real Property Tax Exemptions, Dedications, Credits, Compromises, and Minimum Tax</u>

Providing real property tax relief is a means to promote specific social, land use, or economic objectives. One way the City provides tax relief is through exemptions. An exemption reduces the taxable value of a property on which taxes are computed, either by a predetermined dollar amount or a percentage of gross valuation. The adjusted valuation is then subject to the applicable tax rate to determine the taxpayer's tax liability. The real property must meet certain conditions, depending on the specific exemption, for the tax year for which the exemption is being claimed. Currently, the minimum real property tax rate is $300.

The City provides for a plethora of real property tax exemptions, which reduced real property taxes by $180 million in FY23. It is important to note that while the property owner receives tax relief (identified as a "Tax Benefit" in the following table), this a potential loss of revenue for the City. Below is the table from BFS which lists current exemptions and corresponding tax benefits to landowners.

Tax Benefit Provided by Exemptions
FY 2022 – 2023
(In Thousands of Dollars)

ROH SECTION	EXEMPTION TYPE	COUNT	Total Exempt Value	Tax Benefit
8-10.4	Home	149,032	$ 17,927,574	$ 62,924
8.10.4	In-lieu of home exemption	92	$ 18,400	$ 64
8.10.6	Homes of totally disabled veterans	2,303	$ 2,150,288	$ 7,540
8-10.7	Persons affected with Hansen's	2	$ 50	$ -
8-10.8	Persons with impaired sight	189	$ 4,725	$ 17
8-10.8	Persons with impaired hearing	67	$ 1,675	$ 6
8-10.8	Persons totally disabled	1,495	$ 37,350	$ 136
8-10.10	Charitable purposes (cemeteries)	42	$ 49,307	$ 267
8-10.10	Charitable purposes (church)	887	$ 2,754,339	$ 17,920
8-10.10	Charitable purposes (hospital and nursing homes)	136	$ 1,296,884	$ 15,312
8-10.10	Charitable purposes (group child care centers)	9	$ 35,080	$ 284
8-10.10	Charitable purposes (non-profit corporations)	902	$ 2,939,394	$ 23,826
8-10.10	Charitable purposes (schools)	139	$ 1,337,645	$ 6,246
8-10.12	Crop shelters	19	$ 2,155	$ 12
8-10.13	Dedication (dedicated lands in urban districts)	6	$ 20,313	$ 75
8-10.15	Renewable energy	48	$ 435,431	$ 5,399
8-10.20	Low-income rental housing	314	$ 3,267,977	$ 19,258
8-10.22	Historic residential real property dedicated for preservation	390	$ 759,998	$ 5,064
8-10.23	Hawaiian home land lease	3,899	$ 2,866,803	$ 10,062
8-10.24	Credit union	91	$ 265,971	$ 3,298
8-10.25	Slaughterhouses	1	$ 2,452	$ 14
8-10.27	Public service	480	$ 1,299,063	$ 520
8-10.30	Historic commercial real property dedicated for preservation	15	$ 45,442	$ 563
8-10.32	Kuleana land	53	$ 54,289	$ 289
8-10.33	For-profit child care centers	14	$ 19,203	$ 238
8-10.34	Central Kakaako industrial zone limited development	73	$ 81,024	$ 1,005
8-10.36	Qualifying Affordable Dwelling Units or Renral Housing Units	0	$ -	$ -
8-10.37	During Construction Affordable Dwelling or Rental Housing Units	0	$ -	$ -
	Total Exempt	160,698	$ 37,672,832	$ 180,339

Does not include government and non-taxable property.

Apart from exemptions, there are two additional noteworthy mechanisms through which the City can provide real property tax relief to a taxpayer: dedications and credits. A dedication allows a property owner to commit to the imposition of certain conditions on the dedicated land for a specified period of time in return for reduced property taxes, and may be used to promote certain land uses, such as preservation of historic residential real property. Generally, a credit is an amount deducted from the amount of taxes owed for a property in the following tax year.

Between 2021 and 2023, Councilmembers introduced numerous measures to repeal and amend exemptions (Bill 42 (2021), Bill 35 (2022), Bill 60 (2022), and Bill 30 (2023)), amend a real property tax dedication (Bill 59 (2022)), increase the tax compromise limit for claims that require Council approval (Bill 9 (2023)), and increase the minimum property tax from $300 to $600 (Bill 30 (2023)). The amendments to repeal and amend exemptions ranged from repealing all real property tax exemptions (Bill 42 (2021)) to repealing only certain exemptions - crop shelter, slaughterhouse, qualifying construction work, qualifying agricultural improvements for dedicated vacant agricultural lands, and credit unions (Bill 35 (2022) and Bill 60 (2022)). One measure would amend the credit union exemption instead of repealing it (Bill 30 (2023)).

PIG members discussed the need to further review the City's existing exemptions, including the policy value behind offering certain exemptions. The PIG noted that in its final ORPTAC Report, the Commission recommended repealing crop shelters, slaughterhouses, qualifying construction work, qualifying agricultural improvements, and credit union exemptions. According to BFS, the repeal of the exemption for crop shelters would be an approximate increase of $15,500 in real property tax revenue and the repeal of the exemption for slaughterhouses would be an increase of $14,000 in real property tax revenue. As for qualifying construction work and qualifying agricultural improvements, there would be no fiscal impact as there are currently no claimants. With that said, the PIG concentrated most of its discussion on Bill 30 (2023), which would amend the credit union exemption and raise the minimum tax on all properties from $300 to $600. Discussion occurred on the impacts of raising the minimum tax on properties leased under homestead provisions of the Hawaiian Homes Commission Act (DHHL homestead properties) as well as the policy value of the minimum tax on historic residential and historic commercial properties. At the request of the PIG, BFS provided the fiscal impacts if the minimum tax were raised for all properties except DHHL homestead properties. BFS reported that if the minimum tax was raised from $300 to $400, it would generate an additional $1.8 million, if it was raised to $500 it would generate an additional $4 million, and if it was raised to $600, it would generate an additional $6.6 million. BFS also reported that if the minimum tax for historic residential real property was raised from $300 to $1,000, it would generate $290,000. BFS also noted that historic commercial properties have an exemption amount that is 50% of assessed value, and that these landowners pay property taxes over $1,000.

Ultimately, the PIG recommends that the Council take immediate steps to continue discussion and review of existing exemptions, dedications, compromises, credits, and the minimum tax. The PIG expressed support specifically for concepts and principles in Bill 30 (2023), but the PIG recommended that the minimum tax for DHHL homestead properties should remain at $300 and the minimum tax for historic residential properties should be increased to $1,000. This recommendation furthers the goals to fairly allocate tax burdens and ensure the City is able to meet the growing demand for City services.

Revise Existing Residential Property Tax Classifications

For real property tax purposes, real property in the City and County of Honolulu is classified into general classes, based on its highest and best use, and other criteria. ROH § 8-7.1 identifies two primary residential tax classes — Residential and Residential A.

The Residential A class was created in 2013 pursuant to Ordinance 13-33 after an attempt by the City to restructure the Residential classification. Residential A includes a parcel that is improved with two or less single-family dwellings that are worth more than $1 million, does not have a home exemption, and is zoned residential or dedicated for residential use; is vacant and zoned residential worth more than $1 million; or is a condominium worth more than $1 million without a home exemption. Almost all other residential parcels are classified as Residential. Of note, residential apartment complexes that do not contain condos are likely classified as Residential, and not Residential A.

While the Residential class has one tier and one rate ($3.50 per thousand dollars of value for tax year 2023), as of 2017 pursuant to Ordinance 17-12, the Residential A class has two tiers — with the first $1 million value of the property assigned one rate ($4.50 per thousand dollars of value for tax year 2023) and the remaining value of the property assigned a higher rate ($10.50 per thousand dollars of value for tax year 2023).

Councilmembers introduced numerous measures to revise the existing residential classes from 2021 to 2023, including current bills that would amend which parcels get classified as Residential A based on its value (Bill 20 (2021), Bill 27 (2023), and Bill 29 (2023)) or whether the property is rented out long-term (Bill 24 (2023), Bill 25 (2023), and Bill 27(2023)). Bills were also introduced to treat vacant residential parcels differently, to incentivize occupation of residential properties (e.g. Bill 49 (2021) and Bill 9 (2022)).

Residential A Threshold & Tiers

The PIG had robust discussions on the measures to revise the existing residential classes. The PIG discussed Bills 20 (2021), 27 (2023), and 29 (2023), which would revise the threshold for qualification as a Residential A parcel from $1 million to either $1.3 million or $1.5 million. In addition, these measures would establish three, instead of two, tiers. To account for the steady and consistent increases in property values since 2013 — when the $1 million threshold for Residential A was set — the PIG recommends that the Council should take immediate steps to continue discussion of revisions to the existing residential classifications and expressed support for the concepts and principles in Bill 27 (2023). The PIG noted that these policies would further the goals of supporting housing stability, addressing housing shortages, and fairly allocating tax burdens while also addressing over- and under- taxation of certain property owners.

Based on the PIG's request, BFS provided calculations of possible thresholds and rates for Residential A that would achieve revenue neutrality using valuations from FY24, which can be found in the table below:

Bill 27 tier provisions for Res A

	Parcels	Threshold	RATES								
Res A	23,209	1.1M	$ 4.00	$ 4.10	$ 4.20	$ 4.30	$ 4.40	$ 4.50	$ 4.60	$ 4.70	$ 4.80
Res	6,652	1.1M-2M	$ 11.30	$ 11.00	$ 10.70	$ 10.40	$ 10.10	$ 10.00	$ 9.50	$ 9.00	$ 9.10
		Over 2M	$ 15.70	$ 15.70	$ 15.70	$ 15.70	$ 15.70	$ 15.40	$ 15.70	$ 16.00	$ 15.40
Res A	17,935	1.2M	$ 4.00	$ 4.10	$ 4.20	$ 4.30	$ 4.40	$ 4.50	$ 4.60	$ 4.70	$ 4.80
Res	11,926	1.2M-2M	$ 9.00	$ 9.10	$ 9.20	$ 9.30	$ 9.40	$ 9.50	$ 9.60	$ 9.70	$ 9.80
		Over 2M	$ 21.60	$ 21.10	$ 20.60	$ 20.10	$ 19.60	$ 19.10	$ 18.60	$ 18.10	$ 17.60
Res A	13,670	1.3M	$ 4.00	$ 4.10	$ 4.20	$ 4.30	$ 4.40	$ 4.50	$ 4.60	$ 4.70	$ 4.80
Res	16,191	1.3M-2M	$ 9.10	$ 9.20	$ 9.40	$ 10.30	$ 10.50	$ 11.40	$ 12.40	$ 13.40	$ 14.40
		Over 2M	$ 23.40	$ 23.00	$ 22.50	$ 21.40	$ 20.90	$ 19.80	$ 18.60	$ 17.40	$ 16.20

Long-Term Rentals & Vacancy Tax Classifications

The PIG also discussed how real property tax policies can incentivize property owners to provide long-term rentals and disincentivize vacant residential properties to meet the substantial need for housing units in the City. Bills 24 (2023), 25 (2023), and 27(2023) would exclude long-term rentals from being classified as Residential A and classify those parcels as either Residential or as Long-Term Rentals (a new proposed classification). The PIG members discussed the policy idea behind applying higher property tax rates to investment properties, but also discussed how incentivizing property owners to make properties available for rent and enter into long-term leases serves a public purpose as well as satisfies the PIGs goals to support housing stability and address the City's housing shortage. Members also noted that increased real property tax likely would lead to higher rents and that decreased real property tax could result in lower rents, but is not a guarantee.

Additionally, the PIG discussed Bills 49 (2021) and 9 (2022), which would create a separate or supplemental vacancy residential property tax classification for homes that are unoccupied for a significant period of time throughout a year. The PIG discussed that a separate vacancy classification may be difficult to administer because unanticipated situations may occur that lead to property becoming vacant despite a homeowner's intention (e.g. a new job or a death). PIG members noted that Bill 9 (2022), which would create a supplemental tax, therefore, may be more flexible. BFS continues to express its concern with enforcement, but PIG members noted the importance of a vacancy policy to disincentive vacant homes, increase revenue and/or return homes to the market. BFS also noted that it would be pursuing a Request for Proposals to study the vacancy residential property tax classification. Thus, as it relates to incentivizing property owners to provide long-term rentals and disincentivizing vacant residential properties, the PIG recommends that the Council should take immediate steps to further discussion on concepts and principles found in Bills 27(2023) and 9 (2022).

Although the PIG recommends that the Council may want to take immediate steps to revise the existing Residential A tier thresholds and rates, remove long-term rentals from being classified as Residential A, and create a supplemental vacancy tax, PIG members also recognized that further conversation about restructuring and overhauling the existing residential classifications are warranted, which is discussed in the following section. The PIG notes that restructuring the residential classifications is consistent with the recommendations of the ORPTAC Report.

Restructure Residential Real Property Tax Structure/System

Along with adjustments to existing classifications and tiers, the PIG also had extensive conversations about the benefits of more structural overhauls to the City's real property tax framework. These proposals would seek to establish a tax structure that is fair and equitable, clear and transparent, flexible and administratively feasible. In addition, the overhauled tax structure should offer compelling incentives for desired outcomes, such as active occupancy of residential property, with enough flexibility to update these incentives over time as property markets evolve.

Owner and Non-owner-Occupant Classifications

The Council has considered these types of structural modifications in the past, primarily through proposals to replace the Residential and Residential A classifications with Owner-occupied and Non-owner-occupied classifications, respectively. These proposals are consistent with certain recommendations in the ORPTAC Report, which suggested shifting to an owner and non-owner-occupant structure with tiered rates within each classification. Proposals such as Bills 61 (2022) and 62 (2022) seek to draw a clearer line between these two types of properties, such as by striking the $1 million threshold to qualify as a Residential A property as well as the Residential A exemption for properties with more than two units. In place of these qualifications, the non-owner-occupant tier would apply to a residential property not receiving a homeowner exemption. These changes would provide a degree of certainty as to the appropriate classification of a property from year to year, while communicating clear incentives for occupancy.

Long-Term Lease Properties

As a part of this conversation surrounding a broader overhaul, the PIG discussed the optimal tax treatment for property owners who are actively renting out their properties to long-term residents. Through an owner and non-owner-occupant structure with a third classification for rental properties, rates could be set in a manner that offers meaningful incentives for property owners to either live in or rent out their units. Additionally, this separate tier would provide additional levers for the Council to use in fine-tuning rates from year to year. As an alternative to a third classification for rentals, the same goals might be achieved through a rental exemption within the non-owner-occupant classification (functioning similarly to the current homeowner exemption), like the one in Bill 35 (2022).

The PIG discussed these concepts and generally agrees that providing some form of distinct treatment for owner-occupants, non-owner-occupants, and rental properties would compel property owners to keep their properties in – or introduce their properties into – the housing stock, while capturing additional revenue from those who decline to do so. In this way, such a structure could be utilized to discourage vacant homes by providing preferable rates for owner-occupants and landlords as opposed to investors with vacant properties. This approach could also nudge the housing market in a healthy direction by simultaneously bringing units back into the active housing inventory and reducing the property taxes to landlords, savings which may also be passed onto renters.

In establishing distinct treatment for long-term lease properties, the PIG suggests that the Council continue to consider the most efficient and effective way(s) to verify a property's status as an active rental. For example, evidence of up-to-date general excise tax (GET) payments for the property might demonstrate that the property is being actively rented, with the added benefit of compelling landlords to pay their owed GET taxes to qualify for preferable real property tax rates. Other options for verification might include: transmission of an executed lease agreement covering a certain number of months for the year; evidence of rent payments for a certain number of months in the preceding year; and/or a written attestation that the property is being rented. Whichever verification method or combination of methods is used, the Council should work with BFS to ensure that the process is administratively efficient, reflective of the property's actual use, and difficult to circumvent, with means for recourse in the case of violation. The PIG recognized that the long-term lease classification does not fully address apartment buildings owned by one owner, and does recommend looking at treatments that would address those providing long-term rentals in apartments.

Progressive Tiers/Brackets

As the Council considers structural changes to the real property tax structure for residential properties, it should consider the appropriate manner of implementing progressive rates that shift the tax burden away from lower valued properties that are more likely to be occupied by low-income residents. For example, consistent with the ORPTAC Report, Bill 62 (2022) suggests creating a percentile-based tiering system within each classification (owner and non-owner-occupied), based on the relative values of property assessments by quartile. To clarify, each property would be combined into a single list and ordered by assessment value. The properties would be divided into four equally distributed ranges of property values, with each successive bracket having a greater marginal tax rate. A property would be taxed at the first rate for the portion of its assessment that falls in the first tier, at the second rate for the portion of its assessment that falls in the second tier, and continues onward to ensure that the individual unit amounts to the tax liability for the property. The PIG discussed the benefits of tiered structures and how they can be used to provide targeted relief, such as by reducing tax burdens for owners of property below a certain assessed value. Notably, this type of marginal tax bracket, similar to federal and state income taxes, would prevent situations in which two properties of similar values and classifications face vastly disparate property assessment values.

Instead of dividing these tiers based on relative values (such as quartiles), brackets could be established using absolute (dollar) values. This type of approach is currently taken with the Residential A classification, with different rates applied to a property's first $1 million in value and to its value in excess of $1 million. While this method may provide a sense of consistency, updates to these absolute thresholds would require repeated legislative action. Relative brackets, on the other hand, offer a degree of self-correction, keeping up with inflation and broader market changes. This structure could provide the flexibility needed to fine-tune rates over time to reflect policy goals and market conditions, rather than navigating around static metrics.

Assessment Process

In future discussions, such as through the recommended formation of one or more future PIGs, the Council may benefit from continued conversations surrounding the real property assessment process and potential improvements. The PIG discussed the existing system with BFS in several of its meetings to better the real property tax assessment process. The Council should continue to pursue a transparent, efficient process that accurately reflects the true value of properties and provides a degree of stability to property owners, mitigating unanticipated shocks to annual property tax bills.

Conclusion

The PIG considered a wide range of existing bills and broader concepts surrounding real property tax, and recommends a combination of immediate action on relief measures and continued discussion and development of more structural reforms. Recognizing the need to conclude this PIG in order to move on certain pending measures, the PIG offers its recommendations to the Council. The members of the PIG have found these discussions highly productive and strongly recommend formation of one or more future PIGs to continue building forward momentum on these critical policy developments.

APPENDIX A

BILL NO./ RESO (YEAR)	RELIEF TYPE	TAXPAYER TYPE	LATEST STATUS
BILL 20 (2021) RELATING TO REAL PROPERTY TAXATION	Residential A	Owners of property classified as Residential A	4/6/23 - Filed pursuant to ROH SEC 1-2.4 which sets a two-year filing period on pending bills.
BILL 31 (2021) RELATING TO REAL PROPERTY TAXATION	Residential A	Owners of property zoned Country, P-1, or P-2 that are dedicated for residential use	5/27/23 - Filed pursuant to ROH SEC 1-2.4 which sets a two-year filing period on pending bills.
BILL 35 (2021) RELATING TO REAL PROPERTY TAXATION	RPT exemption	Owners of property required to install fire safety equipment	8/11/21 - Passed first reading.
BILL 42 (2021) RELATING TO REAL PROPERTY TAXATION	RPT exemptions	Owners of property with RPT exemptions	11/10/21 - Postponed to a date and time to be determined by the Council Chair.
BILL 45 (2021) RELATING TO REAL PROPERTY TAXATION	TOD tax incentives	Owners of property with the Neighborhood TOD Plan areas	2/28/23 - Postponed.
BILL 3 (2022) RELATING TO REAL PROPERTY TAXATION	Notice of assessment	All taxpayers	1/26/22 - Passed first reading.
BILL 6 (2022) RELATING TO REAL PROPERTY TAXATION	Income approach valuation	Owners of property classified as commercial, industrial, or hotel and resort	1/26/22 - Passed first reading
BILL 7 (2022) RELATING TO REAL PROPERTY TAXATION	Home exemption	Property owners with a home exemption	3/22/22 - Postponed to a date and time to be determined by the Committee Chair.
BILL 9 (2022) RELATING TO REAL PROPERTY TAXATION	Empty home tax	Owners of residentially zoned real property that has been unoccupied for more than six months during the previous tax year	3/2/22 - Postponed to a date and time to be determined by the Committee Chair.
BILL 31 (2022) RELATING TO REAL PROPERTY TAXATION	Income-Based RPT credit	Property owners eligible for the low-income tax credit	5/4/22 - Passed first reading.

BILL 34 (2022) RELATING TO REAL PROPERTY TAXATION	Central Kakaʻako Industrial Zone Exemption	Property owners of specified parcels adjacent to the central kakaʻako industrial zone	5/4/22 - Passed first reading.
BILL 35 (2022) RELATING TO REAL PROPERTY TAXATION	Long-term lease, Homeowners exemption, Crop shelter exemption, Slaughterhouse exemption, Qualifying construction work exemption, Qualifying agricultural improvements for dedicated vacant agricultural lands exemption	Property owners with a: Long-term lease, Homeowners exemption, Crop shelter exemption, Slaughterhouse exemption, Qualifying construction work exemption, Qualifying agricultural improvements for dedicated vacant agricultural lands exemption	5/4/22 - Passed first reading.
BILL 37 (2022) RELATING TO REAL PROPERTY TAXATION	Low-income RPT credit	Property owners eligible for the low-income tax credit	4/4/23 - Reported out for passage on third reading as amended in CD1 form. CR-75(23)
BILL 38 (2022) RELATING TO REAL PROPERTY TAXATION	Low-income RPT credit	Property owners eligible for the low-income tax credit	4/4/23 - Postponed to a date and time to be determined by the Committee Chair.
BILL 40 (2022) RELATING TO REAL PROPERTY TAXATION	Home exemption	Property owners with a home exemption	4/4/23 - Reported out for passage on third reading as amended in CD1 form. CR-76(23)
BILL 47 (2022) RELATING TO REAL PROPERTY TAXATION	Commercial real property tax rates	Owners of commercial real property	8/10/22 - Passed first reading.
BILL 59 (2022) RELATING TO REAL PROPERTY TAXATION	Historic residential real property dedication	Property owners that have a historic residential real property dedication	1/25/23 - Passed first reading.
BILL 60 (2022) RELATING TO REAL PROPERTY TAXATION	Exemption	Credit unions	1/25/23 - Passed first reading.
BILL 61 (2022) RELATING TO REAL PROPERTY TAXATION	Tax classification	Owners of residential real property that are owner-occupied versus non-owner-occupied	4/19/23 - Committee report adopted. Bill passed second reading, public hearing closed and referred

			to committee.
BILL 62 (2022) RELATING TO REAL PROPERTY TAXATION	Tax classification	Owners of residential real property that are owner-occupied versus non-owner-occupied	1/25/23 - Passed first reading.
BILL 9 (2023) RELATING TO REAL PROPERTY TAXATION	Tax compromises	Taxpayers seeking tax compromises	4/26/23 - Second reading notice published in the Honolulu Star-Advertiser.
BILL 22 (2023) RELATING TO REAL PROPERTY TAXATION	Public hearing for more than 5 percent increase in real property tax assessments	All taxpayers	4/19/23 - Passed first reading.
BILL 24 (2023) RELATING TO REAL PROPERTY TAXATION	Long-term lease	Property owners that lease property for a minimum 12 consecutive months to the same tenants under a written lease agreement	4/19/23 - Passed first reading.
BILL 25 (2023) RELATING TO REAL PROPERTY TAXATION	Long-term lease	Property owners with property falling within the Residential A tax classification who lease the property for residential use for a minimum of one year	4/19/23 - Passed first reading.
BILL 27 (2023) RELATING TO REAL PROPERTY TAXATION	Long-term lease	Owners that lease property for long-term residential use for at least 12 consecutive months under a written lease agreement	4/19/23 - Passed first reading.
BILL 29 (2023) RELATING TO REAL PROPERTY TAXATION	Residential A	Owners of property classified as Residential A	4/19/23 - Passed first reading.
BILL 30 (2023) RELATING TO REAL PROPERTY TAXATION	Exemption	Credit unions	4/19/23 - Passed first reading.
BILL 6 (2022) RELATING TO REAL PROPERTY TAXATION	Income approach valuation	Owners of property classified as commercial, industrial, or hotel and resort	1/26/22 - Passed first reading

BILL 3 (2022) RELATING TO REAL PROPERTY TAXATION	Notice of assessment	All taxpayers	1/26/22 - Passed first reading.
BILL 49 (2021) RELATING TO REAL PROPERTY TAXATION	Vacant residential tax classification	Owners of vacant residential property	1/26/22 - Passed first reading.
BILL 45 (2021) RELATING TO REAL PROPERTY TAXATION	TOD tax incentives	Owners of property with the Neighborhood TOD Plan areas	2/28/23 - Postponed.
BILL 42 (2021) RELATING TO REAL PROPERTY TAXATION	RPT exemptions	Owners of property with RPT exemptions	11/10/21 - Postponed to a date and time to be determined by the Council Chair.
BILL 35 (2021) RELATING TO REAL PROPERTY TAXATION	RPT exemption	Owners of property required to install fire safety equipment	8/11/21 - Passed first reading.
BILL 31 (2021) RELATING TO REAL PROPERTY TAXATION	Residential A	Owners of property zoned Country, P-1, or P-2 that are dedicated for residential use	5/27/23 - Filed pursuant to ROH SEC 1-2.4 which sets a two-year filing period on pending bills.
BILL 20 (2021) RELATING TO REAL PROPERTY TAXATION	Residential A	Owners of property classified as Residential A	4/6/23 - Filed pursuant to ROH SEC 1-2.4 which sets a two-year filing period on pending bills.

APPENDIX B

Testimony Received By
Real Property Taxation Permitted Interaction Group
Public Meeting held May 16, 2023

M-235 Testimony received at May 16, 2023 Public Meeting
M-252 from Natalie Iwasa
M-252 from Chad Taniguchi