BILL040(22)
Testimony

MISC. COMM. 350

COUNCIL

COUNCIL Meeting

Meeting Date: Jul 7, 2023 @ 02:30 PM

Support: 1

Oppose: 1

I wish to comment: 3

Name: Ted Kefalas	Email: tkefalas@grassrootinstitute.org	Zip: 96813
Representing: Grassroot Institute of Hawaii	Position: I wish to comment	Submitted: Jul 5, 2023 @ 02:30 PM

Name: Natalie Iwasa	Email: iwasajunk@mail.com	Zip: 96825
Representing: Self	Position: Oppose	Submitted: Jul 6, 2023 @ 01:46 PM

Name: Zhizi Xiong	Email: alohadivinedesign@gmail.com	Zip: 96817
Representing: CARES Community Advocacy Research Education Services	Position: Support	Submitted: Jul 7, 2023 @ 01:06 PM

Name: B.A. Alexander	Email: babs@ladybuglan.com	Zip: 96734
Representing: Self	Position: I wish to comment	Submitted: Jul 7, 2023 @ 02:10 PM

Testimony:

Given that the last two years have resulted in HUGE tax assessment increases, I feel that this proposed home owner exemption does not go far enough in addressing the plight of property owners.

The increased assessments have escalated homeowners into a "property > $1 million" dollar category. Thus, many homeowners are facing higher property tax bills due to the County Assessors methodology on setting assessments. Does this methodology take into account properties sold in the same area to future homeowners ONLY, or all sales ie; including sales to investors. Is is waaay past time for the C&C to recognize this skewed real estate market. Investors willing to buy up expensive properties harm residents hoping to invest in a house/condo. of their own.

I would advocate for a change to the $1 mil dollar amount, as well as the proposed exemption increase.

Mahalo.

B.A. Alexander

Name: Choon James	Email: ChoonJamesHawaii@gmail.com	Zip: 96762
Representing: CountryTalkStory.com	Position: I wish to comment	Submitted: Jul 7, 2023 @ 02:22 PM

GRASSROOT
INSTITUTE OF HAWAII

July 7, 2023
2:30 p.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 40 (2022), CD1 — 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 40 (2022), CD1, which would increase Honolulu's property tax home exemption by $20,000.

This increase would apply to the standard home exemption, which currently is $100,000. Councilmember Esther Kiaʻāina has proposed an amendment which would increase the home exemption for individuals 65 years of age and older from $140,000 to $160,000.[1]

Under this bill, a primary residence worth $1 million would be taxed at only $880,000 of its value, instead of $900,000. The cost to the county would be about $10 million in fiscal 2025.[2]

Honolulu's standard home exemption was last increased in 2019. Since then, property values in the county have skyrocketed. In January 2019, the median sales price of a single-family home was $767,500. Four years later, it was $970,000 — an increase of more than 26%.[3] Increasing

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[1] "Relating to Real Property Tax Exemptions," Bill 2 (2019), Ordinance 19-7.
[2] Casey Harlow, "Kūpuna could receive a large property tax break under proposed Honolulu bill," Hawaii Public Radio, April 5, 2023.
[3] "Statewide Housing Statistics," Title Guarantee Hawaii, January 2019; "Statewide Housing Statistics," Title Guarantee Hawaii, January 2023.

the homeowner exemption by $20,000 would not fully offset that increase, but it would be close.

Consider that Kauai and Maui counties both offer home exemptions much higher than Honolulu's — $160,000 and $300,000, respectively.[4] In fact, Maui increased its exemption from $200,000 to $300,000 starting in fiscal 2024. Both counties' exemptions are both closer in line with offsetting the higher property assessments Hawaii has been experiencing in recent years.

Across the country, such "homestead exemptions" are common practice. They are intended to protect homeowners who live in their homes from drastic increases in their property taxes. We commend the Council for seeking to increase it to protect Honolulu's homeowners.

Looking forward, we would suggest the Council take a closer look at other property tax issues, such as:

>> Inflation and increasing property values: The Institute appreciates the proposed property tax relief contained in Bill 40, but we believe that such relief should also be indexed to changes in property values in the future so the Council does not have to spend time and effort passing such an ordinance every year to keep up with inflation or the constantly increasing property assessments. We recommend the Council examine the "Boston model," which provides homeowners a flat dollar figure exemption that changes each year in response to changes in the average value of homeowner properties.[5]

>> Transparency: Bill 3 (2022) and Bill 22 (2023) would both provide the general public greater transparency into the real property tax system and make the system more accountable. Bill 3 would give property owners greater information on their annual assessment notices, while Bill 22 would enact a modified "Truth in Taxation" requirement, which would mandate the city Budget and Fiscal Services Department to conduct public hearings whenever property values in a particular council district increase by a predetermined amount.

>> Relief for long-term rentals: Many Oahu residents were concerned this year that increasing assessments could result in the higher property taxes being passed along to renters. The Council should consider exempting long-term rental properties from the Residential A class to prevent this situation. The Council could also consider creating a new class simply for rental properties.

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[4] Kauai County Code, Article 11. Exemptions, Sec. 5A-11.4 Homes; and Maui County Code of Ordinances, Chapter 3.48, Article IX. 3.48.450 - Homes—standards for valuation, accessed Feb. 23, 2023.

[5] "Kauai homeowner exemption not keeping up with assessed values," Grassroot Institute of Hawaii, June 28, 2023.

Thank you for the opportunity to testify.

Sincerely,

Ted Kefalas
Director of Strategic Campaigns
Grassroot Institute of Hawaii

TO: Members of the Honolulu City Council

FROM: Natalie Iwasa
808-395-3233

DATE: Friday, July 7, 2023

SUBJECT: Bill 40 (2022), CD1, Real Property Home Exemptions - **OPPOSED**

Aloha Chair Waters and Councilmembers,

Thank you for allowing testimony on Bill 40 (2022), CD1, and the proposed FD1. The CD1 would increase the home owner's exemption from $100,000 to $120,000 or, for owners who are 65 years or older, $140,000 to $150,000. The FD1 would increase the exemption to $160,000 for those over 65 as well as increase the in lieu of exemption to $160,000 from $140,000. (There are approximately 70 properties that fall into the in lieu of category, per prior testimony by the administration.)

This bill would create a further divide between owner-occupants and landlords. For example, a $500,000 home that is owner occupied would be assessed $1,330 under the CD1 but someone who rents it out would have to pay $420 more ($1,750).

In general renters pay significantly more in household costs than homeowners do. And rents continue to "soar," according to a July 4, 2023, report by Hawaii News Now.[1] In some cases, renters pay 50% or more of their income for housing. The difference in tax policy between owners and landlords is one of the reasons for this – the more it costs landlords, the more they will charge in rent.

Before you increase homeowners' exemptions, please reduce and/or remove exemptions on credit unions, labor unions, business leagues, for-profit child care centers and others that make our real property tax system inequitable.

[1] https://www.hawaiinewsnow.com/video/2023/07/05/report-despite-cooling-housing-market-oahu-rents-continue-soar/

Bill 40

Introduction

CARES testifies in support of the Bill 40. Real property tax credit provides relief for homeowner taxpayers.

What is property tax?[2]

Property tax is a major source of income for local governments. But while they help fund key critical government services, property taxes can be a financial burden for some Americans. On average, US households spent $1,556 on property taxes nationwide in FY 2016, according to a 2019 Tax Foundation Analysis, although collection amounts vary by region. While local governments generally manage property taxes, states typically have some oversight. When it comes to property tax relief, many states have created programs aimed at easing property tax burdens on homeowners who qualify.

How do property taxes work? Property taxes are generally based on where you live and the assessed value of your home. Local governments typically assess home values, establish tax rates, issue property tax bills and collect taxes under guidelines established by the law. A property assessor calculates home costs on a frequent basis. In some states, assessment takes place annually, but the frequency can vary from State to State.

What is property tax relief?[2]

Property tax relief programs, called exemptions, release homeowners from paying all or part of the property taxes. The tax-relief process varies withe very State & County, and potentially every City. In general, there are certain eligibility requirements and application processes. Common property tax exemptions reduce or waive property taxes for veterans, surviving spouses, minor children whose parents are deceased, homeowners who made energy-efficient home improvements and for disabled & low-income residents.

RPAD (Real Property Assessment Division)

For the City & County of Honolulu's real property tax credit relief programs, more information can be found from the Real Property Assessment Division's website. The RPAD division is operated by the Department of Budget & Fiscal Services.

CM Proposals for Tax Credits & Larger Property Assessments[1]

One of the big issues going into the budget process this year, FY 23, was large property assessments, so that was discussed, there was a 2nd year of larger assessments in general for FY 25. Every Dec 15th, we send notice to taxpayers under property tax assessments, and for this year, 2022, we announced the 2nd year of larger property tax assessment increases. There is big concern by public about what the City can do to provide relief. The mayor decided to provide a 1 time tax credit right away for FY 24 starting in July 2023. The City proposed a $300 tax credit for people who live at home who have the homeowners' exemption. There were 152,000 parcels from homeowners who will get this credit. This was the proposal. In the floor drafts, the Councilmembers proposed adding $50 more so it equals a $350 tax credit.

This $350 tax credit equals to a homeowner exemption of $100k. Depending on where you are in terms of the value of your property, if you're a homeowner with an average home of $1 million, you will be having the $350 tax credit equals to an exemption of $100k. So if someone had a tax increase of 10% over the prior year, and they were at a million dollars in the prior year, hypothetically, they would be at $1 million and 1, and that extra $100k will be removed by this tax credit, the relief is provided immediately.

In a condo, where someone has a homeowner exemption worth $600k, and the condo by assessment increases by 10%, $60,000, there is actually a reduction of tax assessment to an amount below $600k. The one time credit will allow taxpayers to get tax relief down to a minimum of $300. There is a minimum $300 tax everyone has to pay but the impact could be significant depending on the situation.

The mayor kept the tax credit flat because people who lived in homes that are not as high in terms of assessment value will get a better benefit those who live in multimillion dollar homes will get a smaller impact. The intention was to help those who are most in need first.

Long term solutions & HART[1]

One of the good examples is the low income tax credit that requires filing annually but to qualify for this credit the combined income of a household based on individuals listed on the deed, the owners of the home, cannot exceed $60,000. This income limit has been in place for years from 2014 and it hasn't changed. The City has considered looking at increasing the limit but is very careful & deliberate about it.

There are vacancies that the City has to fill and on top of that and even if the City's vacancies remain on hold in terms of amount, there are pay increases that are gonna kick in from FY 24-25 and those pay increases are significant. The City is looking at salaries & benefits related & tied to salaries creating an combined increase of what the City will have to fund in FY 25 of $160 million. That is a huge number to fund. And now there is HART. As interim operations start on June 30, more information on operating characteristics & costs will be assessed. And there will be more information about the costs of what it takes to run that huge project.

There is increased cost on 1 side of equation, in terms of tax relief on revenue side, the City will look at various options in providing relief but will be very careful & deliberate about the costs they have to cover moving forward.

Critical Government Services & PIG[1]

The Budget & Fiscal Services Department is working closely with the Councilmembers. The Councilmembers, a few weeks ago, set up a PIG to review & discuss tax relief going forward, beyond FY 24. They reviewed more than 30 bills that are active that could impact real property taxes. The bills were categorized by tax credits. The bills were grouped together by situations that involve homeowner exemptions and the amount of the exemption. They looked at a group of bills that involved other types of exemptions, dedications to homeowner taxpayers. And finally, they looked at bills that considered restructuring the tax reclassification system that is utilized for assessment to determine tax evaluation for all taxpayers.

The Budget & Fiscal Services Department went through the 1st round of discussions with Councilmembers. The Councilmembers met on their own in the final meeting and the discussions went well. There is a plan. There were changes that were proposed during the 3rd reading of budget bill. There was talk about more joint discussion for a 2nd PIG for later in the year to talk about the tax classification system and other larger issues including relief for long term renters. The City's costs to continue critical government services are going to go up in the future, especially with HART operations. And the City has to go through this process of discussing relief very deliberately because the City has to consider how it will balance the funding of critical government services to the public.

Conclusion

CARES is in strong support of Bill 37 & 40 because providing relief through tax credit programs is critically important to citizens.

Works Cited

1. Star-Advertiser, By Ryan Kalei Tsuji and Yunji de Nies / Special to the, and 2023 June 5. "VIDEO: Honolulu's Budget Director Joins "Spotlight Hawaii."" Honolulu Star-Advertiser, 5 June 2023, www.staradvertiser.com/2023/06/05/breaking-news/upcoming-livestream-honolulus-budget-director-joins-spotlight-hawaii-tune-in-at-1030-a-m/. Accessed 7 July 2023.
2. "Property Tax Relief: How It Works and How to Get It." Intuit Credit Karma, 5 May 2020, www.creditkarma.com/tax/i/property-tax-relief-what-to-know. Accessed 7 July 2023.

3. “RPAD - Homepage.” Www.realpropertyhonolulu.com, www.realpropertyhonolulu.com/. Accessed 7 July 2023.

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SPECIAL MEETING
CITY COUNCIL CHAMBER
10TH SESSION
FRIDAY, JULY 7, 2023
2:30 PM

BILL037(22)
Tabbed View
Measure Title:
RELATING TO REAL PROPERTY TAXATION.
Date Introduced:
May 16, 2022
Introduced By:
ESTHER KIAʻĀINA
Committee:
BUDGET (BUD)

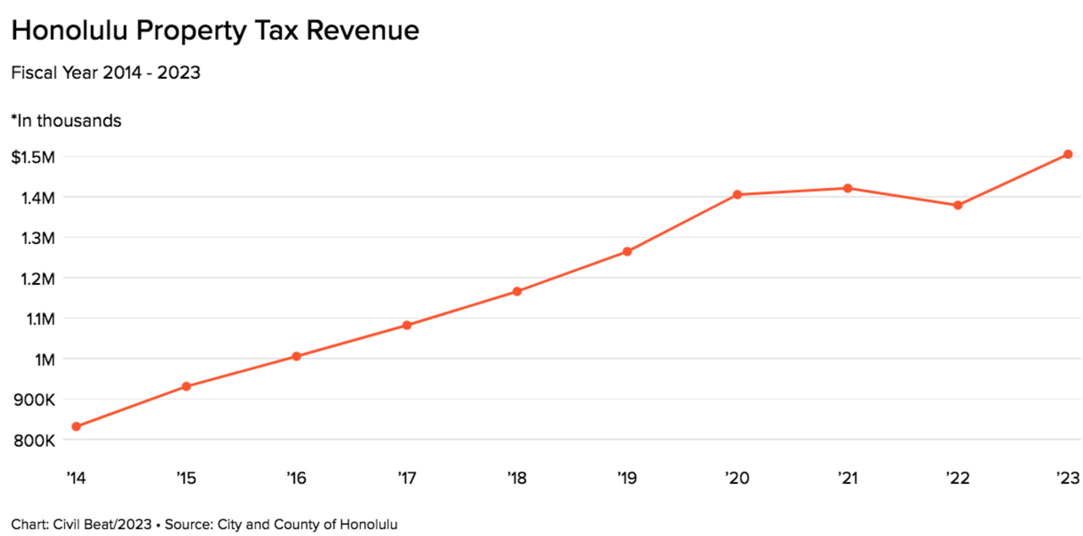
BILL040(22)
Tabbed View
Measure Title:
RELATING TO REAL PROPERTY TAXATION.
Date Introduced:
Jun 14, 2022
Introduced By:
ESTHER KIAʻĀINA
Committee:
BUDGET (BUD)

Aloha Chair Waters, Vice-Chair Kia'aina and City Council members:

It's good that the City Council is paying attention and efforts to these very potent property tax issues in Oahu. We hope these efforts and dialogue will continue in order to fine-tune the system for the benefit of our local folks.

I hope these shared parameters will be carefully considered in the policy-making to make Oahu a better place:

1. Real property assessments will continue to increase. It's concerning that the county appears to want to spend "projected" revenues and there is not enough culture of fiscal prudence or any desire to cut the fat off budgets. The city budget continues to increase. Is there any desire to carefully comb through the entire budget and objectively figure out between the needs and the wants? What is most effective and efficient way to spend the fiscal resources? How can we make life easier for our residents?



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.

2. It's no secret that Honolulu is primarily financed by real property taxes. If there continues to be uncontrolled bad fiscal decisions, it's the residents who have the bear the brunt of these fiscal blackhole.

3. An example is the **Honolulu Rail** now known as "Skyline". It's very obvious that the math does not pencil out in this project. This project has escalated

from \$2.7 BILLION in 2006 to about \$11 BILLION today. There was an OPENING DAY on June 30, 2023 with lots of pomp and fanfare despite the fact that the project is incomplete. The first 3 days of Free fare and natural novelty has brought out curious riders. But on the 4th day, the patronage of this product has already shown a marked decrease in the projected **fare-box revenues**. This can only mean one thing – the rail will be eating up increasingly bigger and bigger portions of the city's year budget. Is this financially sustainable for the citizenry?

The budget for Honolulu Rail is
County TAT transfer to HART - \$39,809,000

Rail O&M – I think \$73.4 million (pg 14 of Bill 11)

City "skin" - \$12 million (not sure where this is at)

All the "expenses" to help property taxes are pittance compared to these Rail costs.

4. The Honolulu City and County needs to decide whether it wants to help long time local residents remain in Oahu or to incrementally price them out of paradise. Property values will definitely go up. It's certainly profitable for the County tax collectors. But, what good is it for a property owners who have no intention of leaving Hawaii and no intention of selling but keeping it in the ohana.

5. There are **marked differences** between **apartment, condominium, townhomes** and **single family dwellings**. It's clear that apartment and condos have much less property tax assessments and thus less RPTaxes.

   Because of these valuations, providing a say, "\$20,000.00 more exemption is much more significant for apartment owners than single family owners whose RPT assessments have gone up from \$200,000 to \$1.5 Million this year. Obviously a \$20,000 extra exemption is more valuable for apartment owners in the \$400,000 value assessment range. Kauai and Maui counties are more pragmatic by offering both offering home exemptions much higher than Honolulu's in the \$160,000 and \$300,000, respectively. \$20,000 more in exemptions is pittance.

6. I continue to have concerns with certain categories including the historical home exemptions. A single family home valued at \$3M has to pay many more thousands of dollars than a home under such exemption that used to pay \$100, then \$300 and now probably \$1,000.00 Generally those with historical exemptions are also much more affluence than ordinary owners who are caught in inevitable property appreciation.

I look forward to seeing more dialogue on these very important issues.

Mahalo,

Choon James
ChoonJamesHawaiigmail.com
808 293 8888