BILL042(23)
Testimony

MISC. COMM. 369

COUNCIL

COUNCIL Meeting

Meeting Date: Jul 12, 2023 @ 10:00 AM

Support: 0

Oppose: 1

I wish to comment: 3

Name:	Email:	Zip:
Trey Gordner	trey@gogordner.com	96706
Representing:	Position:	Submitted:
Self	Oppose	Jul 10, 2023 @ 10:56 AM

Testimony:
I respect the Council's intent to insulate vulnerable property owners from price shocks; but capping appreciation for a certain subclass of property owners is the wrong approach because it would further drive up housing costs and place an even higher tax burden on non-residential owners, including our farmers and small business owners. Rather, the Council should be asking why these price shocks occur and attempting to address root causes.

First, this measure would drive up housing costs. If taxes are held below fair market value, even temporarily, this would increase return on investment for speculators buying residential property in Honolulu. Greater ROI means more investors, which means more demand for the same limited supply, which means higher prices through a process called capitalization. So this policy will have the opposite of its intended effect.

Second, because the measure only affects residential owners, it necessarily places more of the burden of funding city services on owners outside of this privileged residential class in boom years. Bearing in mind that agricultural, commercial, and industrial uses already pay much higher rates than residential owners on property of equivalent value-- $5 on agricultural property for every $3 residential and $7 on commercial and Industrial for every $2 residential—these owners will face a double shock: the full appreciation of their property and taxes, and the increased share of taxes passed on from insulated residential owners.

What is the root cause of home price volatility in Honolulu? In a word, land.

Economists have found that "land leverage"—the ratio of a property's land value to its overall value—is correlated with increased price volatility because the value of land fluctuates more quickly and more substantially than the value of improvements (i.e. buildings). Based on 2021 estimates from Zillow and the National Association of Realtors, the land leverage of U.S. residential as a whole is 0.34. So, roughly speaking, for every $3 of property values, $1 is in the land. Using last week's BFS Real Property Assessment data, I calculate that the median land leverage in Honolulu is 0.66—nearly double the national value. This means that Honolulu's property values are doubly exposed to global economic trends like we saw during the COVID-19 pandemic.

The solution is to pursue both tax and land use policy that reduces land leverage by encouraging more efficient use of our limited area. As a first step, I urge the Council to adopt the 3rd recommendation of 2021-2022 Oahu Real Property Tax Advisory Commission ("ORPTAC"), in its final report, CC-224 (2022), to study the potential of a land value tax.

Name:	Email:	Zip:
Natalie Iwasa	iwasajunk@mail.com	96825
Representing:	Position:	Submitted:
Self	I wish to comment	Jul 11, 2023 @ 07:26 AM

Name:	Email:	Zip:
Ted Kefalas	tkefalas@grassrootinstitute.org	96813
Representing:	Position:	Submitted:
Grassroot Institute of Hawaii	I wish to comment	Jul 11, 2023 @ 03:08 PM

Name:	Email:	Zip:
Choon James	ChoonJamesHawaii@gmail.com	96762
Representing:	Position:	Submitted:
Self	I wish to comment	Jul 12, 2023 @ 12:32 AM

TO: Members of the Honolulu City Council

FROM: Natalie Iwasa
808-395-3233

DATE: Wednesday, July 12, 2023

SUBJECT: Bill 42, Valuation Cap Residential Properties – **COMMENTS**

Aloha Chair Waters and Councilmembers,

Thank you for allowing testimony on Bill 42, which would put a cap on residential real property assessed values.

According to the bill, values "must not exceed eight percent of the preceding tax year assessed value" with certain conditions added. If a property is currently valued at $1,000,000, eight percent would be $80,000. It therefore appears the intent is that the assessed value be limited to 108% of the prior year's value.

Regardless, this cap is too low and would put pressure on other property owners.

Before moving forward with a cap, please remove exemptions for credit unions, labor unions, social clubs and business leagues, for-profit childcare centers and others under the "charitable" exemption that are not 501(c)(3) organizations.

GRASSROOT
INSTITUTE OF HAWAII

July 12, 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 42 (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 42 (2022), which would impose an 8% assessment cap on properties in the Residential tax class.

These assessment caps, also known as valuation caps, limit how much the assessed value of a parcel can change year-over-year. They are intended to blunt the effect of higher property assessments on the tax bills of the property owners.

Under Bill 24, a property once subject to a cap would be reassessed at full market value whenever it sold.

California's Proposition 13 is one of the most famous examples of an assessment cap. Currently, Hawaii and Kauai counties impose 3% assessment caps on properties in their owner-occupied or homestead classes.[1]

[1] Jonathan Helton, "How Hawaii's county lawmakers can provide tax relief to offset higher property assessments," Grassroot Institute of Hawaii, April 2023, p. 11.

While assessment caps can be of some assistance, the Institute believes that they are not the most effective means of providing homeowners property tax relief when used across the board and set at low percentages.

The primary benefit is to shield property owners from unexpectedly large increases in their tax bills.

Under Bill 42, the owner of a property whose value increased by 20% in one year would not pay the entire 20% increase that year, but over a series of several years, since the bill provides that any increase above the 8% would be factored into the property's assessments in future years. This would make the tax increase more gradual and lessen the possible negatives of a one-time shock from a large tax bill.

Assessment caps are an imperfect relief policy, however, since they can result in unequal tax bills for similar properties. A longtime homeowner might pay a much smaller tax bill than a new homeowner, no matter their age. Because an assessment cap limits the taxable value over time, the longtime homeowner will face a tax rate that is applied to a smaller portion of the market value of their home.

As a result of these unequal tax bills, assessment caps can create distortions in the housing market. Caps tend to result in more tax savings over time, so homeowners become hesitant to sell their homes and purchase other homes; they want to keep their tax benefits.

For example, research shows that under California's Proposition 13 combination 2% assessment cap and 1% rate cap,[2] homeowners tend to stay in their homes much longer.[3] This is despite the fact that many individuals might want to downsize or move to another neighborhood or city. Basically, an assessment cap essentially disincentivizes homeowners from moving.[4]

Economists Nada Wasi and Michelle White found in a paper for the National Bureau of Economic Research that "existing owner-occupiers move less often and therefore the supply of

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[2] "Understanding Proposition 13," Office of the Assessor, County of Santa Clara, accessed July 11, 2023.
[3] Nada Wasi and Michelle White, "Property Tax Limitations and Mobility: The Lock-In Effect of California's Proposition 13," National Bureau of Economic Research Working Paper 11108, February 2005. See also Keith Ihlanfeldt, "Do Caps on Increases in Assessed Values Create a Lock-In Effect? Evidence From Florida's Amendment One," National Tax Journal, March 2011.
[4] California Propositions 60 and 90 attempted to resolve this concern by allowing homeowners over age 55 to keep their tax benefits if they sold their homes and moved. See "Transfer of Base Year Value for Persons Age 55 and Over – Propositions 60/90," California State Board of Equalization, accessed July 7, 2023.

owner-occupied housing units offered for sale falls. … This forces renter households to delay their transition to owning."[5]

To be fair, the 8% cap proposed by Bill 42 would not likely distort the Honolulu housing market in the way that Proposition 13 affects California. That's because over the past decade, from 2014 to 2023, the assessed value of properties in the Residential class increased by an average of 5.45% each year.

For fiscal 2024, the assessed value of Residential properties on Oahu increased by an average of 9.1%,[6] but otherwise, the average increase exceeded 8% only twice during that 10-year period — by 8.9% in 2015 and 9.3% in 2023.[7]

This is not to say that individual properties within the homeowner class did not increase by more than 8% each year. In fact, this bill could shield owners of such properties from unreasonably large tax increases, and on that metric the proposal has merit.

Should this bill move forward, the Institute would suggest the following:

>> Retain the provision that states, "If the property has an assessed value that will increase the assessed value in excess of eight percent over the preceding tax year, the director may apply the excess value to the subsequent tax year."

This provision would help minimize the distortionary effect of the cap, since assessments higher than 8% would be factored into the assessed values for years in which a property's value increases by less than 8%.

>> Insert a provision that guarantees that homeowners can keep part or all of their tax benefit if they sell their property and buy another property in Honolulu that they plan to use as a primary residence. This also would minimize the distortionary effect by removing the disincentive to sell.

Thank you for the opportunity to testify. Sincerely,

Ted Kefalas
Director of Strategic Campaigns
Grassroot Institute of Hawaii

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[5] Wasi and White, p. 8.
[6] "City to send 2023 Real Property Notice of Assessments," Honolulu Department of Customer Services, Dec. 12, 2022.
[7] Grassroot Institute analysis of city real property assessment data.

CountryTalkStory.com
Promoting Good & Just Governance

REGULAR MEETING
CITY COUNCIL CHAMBER
10TH SESSION
FRIDAY, JULY 12, 2023
10:00 AM

Bill 34
Bill 42

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 but can long-time kama'aina property owners keep up?** 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?

2. If there are no efforts to cap the property taxes for long-term kama'aina owners who do not wish to sell their properties, gentrification will price local familiess out of paradise. The culture and flavor of Hawaii will change. Hawaii will become a home for the most affluent and a community of essential workers with the middle-class diminished? Is this what we want?

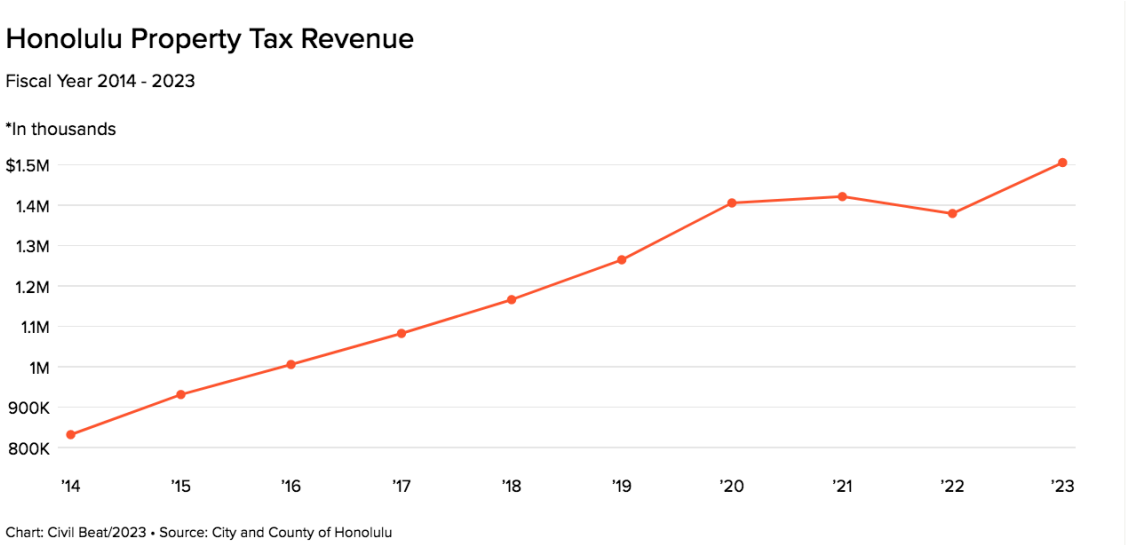


Chart: Civil Beat/2023 • Source: City and County of Honolulu

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.

3. 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 blackholes. Does government have to keep expanding that requires more operation costs and so on?

4. 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. The pressure will be to squeeze as much property taxes from rsidents as much as possible. Is this financially sustainable for the citizenry?

   The budget for Honolulu Rail this 2023-24 year is about $126 Million.
   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 "exemptions" to help property taxes are pittance compared to these Rail costs.

5. 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 owner who have no intention of leaving Hawaii and no intention of selling but keeping it in the ohana. Our local kama'aina families are the glue that holds Hawaii together in the communities that preserve the unique culture and lifestyle.

6. 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.

   We're not against the $80,000 threshold for owners but we're saying that **the middle class in Oahu is disappearing too.** There has been irrational appreciation in Oahu as well. For example: North shore properties actually increase as much as 54% this year, not the often-quoted 20% increases.

7. 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 affluent than ordinary owners who are caught in inevitable property appreciation. There's a fundamental inequity there.

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

Mahalo,

Choon James
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