BILL049(24)
Testimony

MISC. COMM. 358

COUNCIL

COUNCIL Meeting

Meeting Date: Aug 7, 2024 @ 10:00 AM

Support: 1

Oppose: 0

I wish to comment: 0

Name:	Email:	Zip:
Ted Kefalas	tkefalas@grassrootinstitute.org	96813
Representing:	Position:	Submitted:
Grassroot Institute of Hawaii	Support	Aug 6, 2024 @ 09:13 AM

GRASSROOT
INSTITUTE OF HAWAII

1050 Bishop St. #508
Honolulu, HI 96813
808-864-1776
info@grassrootinstitute.org

Removing barriers to Hawaii's prosperity

Aug. 7, 2024, 9 a.m.
Honolulu Hale

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

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

RE: Bill 49 (2024) — RELATING TO REAL PROPERTY TAXATION

Aloha Chair Waters, Vice-Chair Kiaʻāina and other members of the Council,

The Grassroot Institute of Hawaii would like to offer its **support for — and an amendment to —** Bill 49 (2024), which would limit the amount that property value assessments for certain homeowners can increase each year, similar to the 3% assessment caps on owner-occupied properties on Hawaii and Kauai.[1]

The past several years have seen significant increases in the assessed values of residential properties in Honolulu, and for many homeowners, these higher values have resulted in higher tax bills.

Attempts to limit these unexpected increases are welcome, although Grassroot would like to propose an amendment to this bill, since assessment caps can create distortions in the real estate market.

Research shows that under the 2% assessment cap and 1% rate cap of California's famous 1978 Proposition 13,[2] homeowners have tended to stay in their homes much longer than in other states,[3] despite the fact that many of those homeowners might have wanted to downsize or move to other neighborhoods or cities. Basically, an assessment cap can disincentivize homeowners from moving.

---

[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.
[2] "Understanding Proposition 13," Office of the Assessor, County of Santa Clara, accessed Aug. 2, 2024.
[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.

In a 2005 paper for the National Bureau of Economic Research, economists Nada Wasi and Michelle White found that following enactment of Proposition 13, existing owner-occupiers moved less often and therefore the supply of owner-occupied housing units offered for sale declined, which in turned forced renter households to delay their transitions to owning.[4] Other studies have reached similar conclusions.[5]

In 1986 and 1988, California voters added language allowing homeowners 55 years of age or older to keep their property tax benefits if they move, subject to some requirements.[6] The effect of this was to make it much more likely for homeowners to move at age 55 than age 54, indicating the importance of this caveat to Proposition 13.[7]

We suggest the Council insert a provision that guarantees that Oahu homeowners could keep part or all of their tax benefits if they sell their properties and move into other Honolulu homes that they plan to use as primary residences. This would minimize the distortionary effect of the assessment cap by removing the disincentive to sell.

As this bill moves forward, Grassroot welcomes dialogue about the level at which the cap should be set.

Thank you for the opportunity to testify.

Ted Kefalas
Director of Strategic Campaigns
Grassroot Institute of Hawaii

---

[4] Wasi and White, p. 8.
[5] Paul Fisher, "The Role of Property Tax in California's Housing Crisis," University of Arizona Department of Economics, May 5, 2023, p. 4.
[6] 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 Aug. 2, 2024.
[7] Fernando Ferreira, "You Can Take it with You: Transferability of Proposition 13 Tax Benefits, Residential Mobility, and Willingness to Pay for Housing Amenities," UC Berkeley Center for Labor Economics Working Paper No. 72, Feb. 5, 2005; and Fernando Ferreira, "You Can Take it with You: Transferability of Proposition 13 Tax Benefits, Residential Mobility, and Willingness to Pay for Housing Amenities," Journal of Public Economics, Vol. 94, Issues 9-10, October 2010.