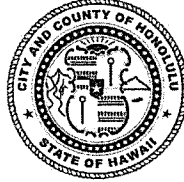


DEPARTMENT OF BUDGET AND FISCAL SERVICES
KA 'OIHANA MĀLAMA MO'OHĒLU A KĀLĀ
CITY AND COUNTY OF HONOLULU

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August 19, 2024

The Honorable Radiant Cordero, Chair
and Members
Committee on Budget
Honolulu City Council
530 South King Street, Room 202
Honolulu, Hawai'i 96813

Dear Chair Cordero and Councilmembers:

SUBJECT: Bill 49 (2024) - Relating to Real Property Exemption -
Incremental increase limit

The Department of Budget and Fiscal Services (BFS) has concerns regarding Bill 49 (2024) which seeks to create an additional exemption for the increase of assessed valuation over a set percentage threshold over the prior year, for homeowners with a home exemption for a specified (and yet to be determined) number of years. Our concerns are as follows:

- This proposal increases the value of a home exemption for select homeowners, creating tax inequities among the City and County of Honolulu's ("City") real property tax homeowner base. There are approximately 153,000 parcels with home exemptions in FY25, the impact of this proposed exemption on tax revenue, in perpetuity, would conceivably shift the tax burden onto others if the City implements this measure.
- There are larger residential lots that have two, three, or more dwellings on the same parcel but may only have one home exemption. This bill would allow the other non-owner occupied dwellings that are income-producing to be eligible for the additional exemption, causing further tax base inequities.

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- The condition to continue this exemption when the parcel is inherited by a single family member creates complications and an administrative burden that would very likely be outside of BFS' capacity to validate and enforce.
- Bill 49 (2024) does not address home improvements that could increase assessed valuations beyond any set percentage threshold. Our interpretation of the bill exempts increases in assessed valuation caused by home renovations, additions, correction of deferred maintenance, and the like. This will compound tax base inequity.
- The effective date of this exemption would be contingent upon the State of Hawai'i providing a specified percentage of the State Conveyance Tax distribution to the City or increasing the City's allowed surcharge percentage rate on the State General Excise Tax. If Council decides to move this measure forward, BFS recommends setting a sunset date to avoid any adverse impacts with subsequent real property tax program changes.
- The City will require time to implement changes, including, but not limited to, system development to properly reflect the incremental increase limit on a parcel's assessed valuation.

Thank you for the opportunity to provide testimony on this bill. Please contact me at (808) 768-3901, if you have questions or need clarification.

Sincerely,



Andrew T. Kawano
Director

APPROVED:



Michael D. Formby
Managing Director