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City and County of Honolulu (the City)

Empty Homes Tax (EHT) Program – Feasibility Analysis Presentation

April 29, 2025

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Project Background and Scope

Bill 46 is proposing a new property classification for empty homes (Res E). The Bill seeks to tackle pressing issues of homelessness and the shortage of affordable housing by:

1. Motivating property owners to either lease their vacant properties for longer terms or sell them for residential use.
2. Enhancing the City's housing availability to align more closely with demand, thereby helping to alleviate the market pressures contributing to prohibitively high housing costs.
3. Producing City income that can be directed towards affordable housing solutions and combat homelessness.
4. Facilitating the transformation of current investment properties into housing units, eliminating the need for expensive construction, time-consuming development and approval procedures, or the purchase of additional land.

Project Context

The City has engaged EY to design an effective tax program and establish the necessary steps to create and enforce a program that levies a tax on "empty homes". The project is split into two key tasks:

Task 1: Assess the feasibility of a tax on empty homes. This involves detailed financial feasibility analysis and a high-level operating model design.

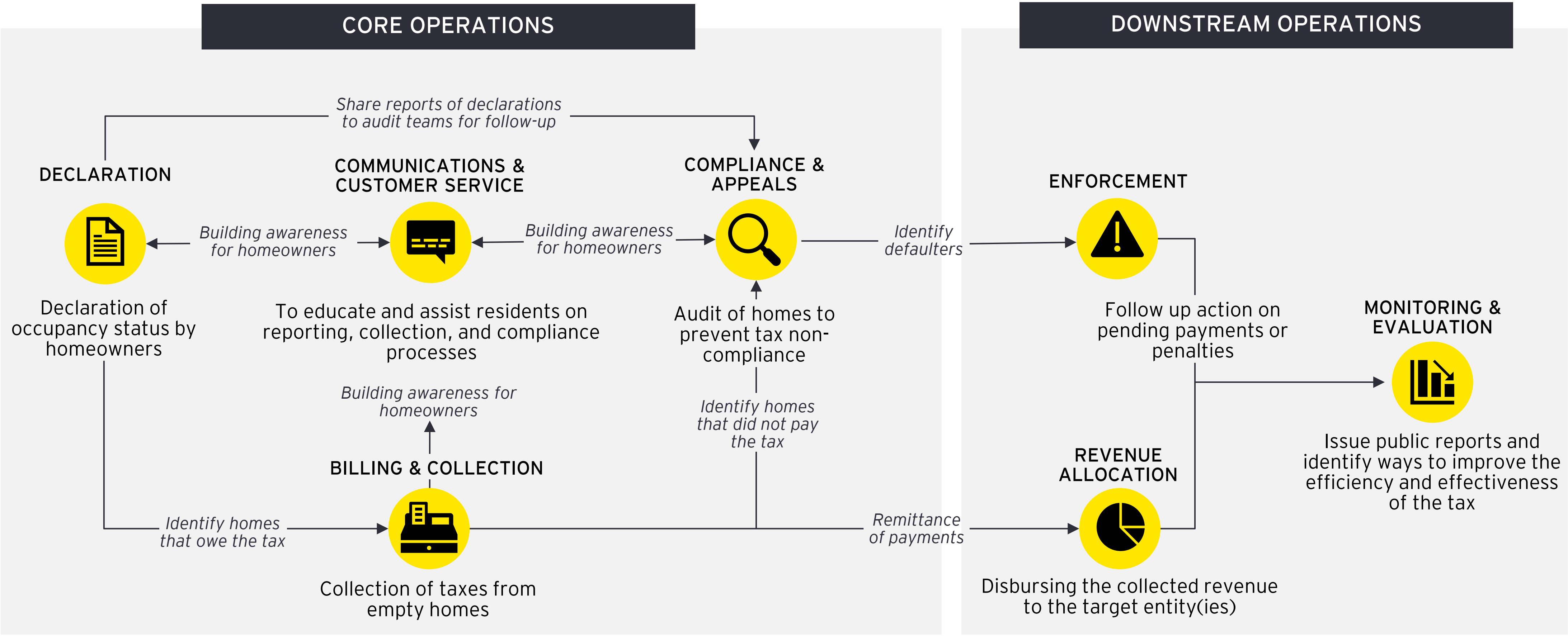
Work is complete; this presentation outlines the key findings from Task 1.

Task 2: Design the operating model for the tax, including people, process and technology requirements, and development of an implementation plan.

Task 2 is planned to be completed over the coming months.

Operational Components of the Cost Model

Res E operations can be segmented into two major groups – **core operations** and **downstream operations** – as illustrated below. Core operations consist of functions that occur consistently and are required for the program to function effectively. Downstream operations are supporting (enforcement) or end-state (revenue allocation) functions that occur inconsistently (as-needed) or represent the output of the overall process, respectively.



Key Components of Bill 46 to Guide the Analysis

Bill 46 was used as guide to assess the feasibility of a tax on empty homes for Honolulu. There are four key aspects of the tax policy:

Definition of an Empty Home

The ordinance establishes a new real property tax classification of "residential E" for certain properties, including residential properties that are vacant or not likely to be long term residences, to be taxed.

Tax Rate and Structure[1]

The Tax Rate directly impacts the revenue estimate through tax levies and the increase in properties that are released to the market as a result of the tax (behavioral impact). However, the change to a new property classification means that the rates are not defined in the Bill. This is due to property tax rate being set by Council on an annual basis.

Exemptions[1,2]

Exemptions recognize allowable reasons for properties to be empty. Exemptions directly impact financial feasibility as they reduce the number of homes that will pay the tax.

Bill 46 has proposed 16 exemptions, of which 14 are aligned with those typically observed in other jurisdictions.

In addition to the exemptions, Section 5 outlines criteria for instances when Res E would not apply.

Use of Revenue[3]

Bill 46 stipulates" that at least 20 percent of the tax revenues collected from residential E properties may be deposited into the housing development special fund to be used as provided in ROH Section 6-46.3(e) and credited to the affordable housing development account".

Notes:
1. Impacts the Revenue Estimates.
2. Due to data limitations, analysis of the financial impact of Section 5 was not possible.
3. Could potentially impact program feasibility.

Feasibility Analysis: Approach

Components of Feasibility Analysis

Three key components drive the feasibility study; revenues, costs and scenario analysis.

Estimate Revenues

From two sources:

- **Tax Levy** – Revenue earned from homes declared or deemed empty.
- **Penalties** – Revenue from non-compliant or fraudulent declaration / reporting.

Which is driven by:

- **Housing Supply** (i.e. number of properties)
- **Assessed Value** (where the tax rates are a percentage of the properties value)
- **Tax Rates**

Estimate Costs

This includes:

- **Implementation Costs** – Upfront costs associated with establishing the tax (e.g., software upgrades).
- **Operating Costs** – Ongoing costs associated with running the tax (e.g., staffing and compensation for compliance, customer service, reporting).
- **Foregone Revenue** – Property taxes not collected on homes that are reclassified from Res or Res A.

Conduct Scenario Analysis

Analysis with respect to key parameters conducted to:

- Estimate revenues from the tax and penalties, as proposed in Bill 46 and compared to other jurisdictions
- Assess the feasibility of the tax by estimating potential net revenues.

Revenue Estimation: Methodology Walkthrough

Estimate the Tax Base (i.e., the number of empty homes that do not qualify for an exemption)				Estimate Compliance Impacts
1. Identify total number of taxable properties and assessment values, for condos and non-condos.	2. Estimate the vacancy rate using water consumption data.	3. Estimate properties that are vacant and not exempt.	4. Estimate how many non-exempt empty properties will return to the market.	5. Estimate rate of compliance. Of non-compliant homes, estimate percentage identified through audit.
▪ 287K - 292K properties ▪ 47% Condos, 53% other ▪ Condos: $726K average ▪ Other: $1.38M average	▪ 2.4% - 4.2% vacancy ▪ 7,316 - 11,184 properties	▪ 13 - 19% not exempt ▪ 958 - 2,125 properties	38-86 units converted annually	▪ Nearly 71% compliance rate ▪ 65% of non-compliant homes identified through audit

Note: All values are for the Tax Year 2027/2028

Revenue Estimation: Final Step and Outcomes

Revenue Estimates

6. Multiply the number of homes by assessed value and applicable tax and penalty rate (for condos and non-condos).

Tax Rate Scenario	10-Year Average Annual Gross Revenue	10-year Average Annual Net Revenue*
Baseline – 1% at implementation, 3% starting in third year	$42.3M	$29.1M
1%	$16.5M	$3.2M
2%	$32.4M	$19.2M
3%	$47.8M	$34.5M

*Includes operational costs and foregone revenue from homes no longer paying Residential or Residential A taxes.

Revenue Estimation: Methodology Walkthrough

Exemption Estimates

Exemption	10-Year Annual Average Homes Exempt*
A & C. Home Exemption	4,700 - 6,809
B. Ohana units	3 - 4
D. Principal Residence	1,232 - 1,784
E. Court Proceedings	29 - 42
F. Deceased owners	26 - 37
G. Medical Needs	6 - 9
H. Military deployment	36 - 52
I. Building permit applications	45 - 66
J. Active building permit	71 - 103
K. On the market	225 - 325
L. Senior homes	34 - 49
M & N. Non-profit organizations	3 - 5
O. Government properties	13 - 19
P. Second property owned by HI resident	166 - 241
Total Exempt	6,588 - 9,544
Total Non-Exempt	993 - 2,240

*Assumes parameters of Bill 46 as currently drafted.

Conversion Estimates

Conversion rates are measured as Annual Behavioral Response Rate (ABRR).

ABRR is based on the tax rate and an assumption that the higher the tax rate, the greater the impact to behavior. The following rates were used:

Tax Rate	ABRR	10-Year Total Homes Converted**
1%	4%	642
2%	5.5%	882
3%	7%	1,127

**Assumes consistent tax rate over a 10-year period.

Implementation and Operational Cost Categories

Implementation Costs

Categories	Estimates (Medium Scenario)
Administrative – People	
Project Team Salaries	$181,128
Project Team Benefits	$101,269
Training & Onboarding	*$696,754*
Administrative – Other	
Office Equipment	$174,158
Office Renovation	$100,000
Technology	
Software Development	$350,000
Public Education	
Advertising	$10,000
Professional Services	
Legal	$258,000
Other	$258,000
Contingency	$211,931
Total	**$2,342,239**

Operating Costs

Categories	Estimates (Medium Scenario)
Administrative – People	
Branch Leadership	$104,670
Tax Operations	$370,176
Compliance	$1,214,688
Appeals	$98,046
Benefits	$999,436
Administrative – Other	
Facilities (Office & Parking)	$288,200
Communications	$100,000
Technology	
Maintenance & Support	$300,000
Professional Services	
Legal	$258,000
Other	$258,000
Contingency	$399,122
Total	**$4,390,338**

EY

Cost Estimation Approach & Key Parameters

Total Cost

One-time implementation costs

(e.g., project team, technology, professional services)

$1.3M - $3.6M
(one-time)

Ongoing operational costs

(e.g., staff compensation, facilities, equipment)

$3.0M - $5.8M
(annually)

Foregone revenues

(revenue not collected as a result of change in tax classification)

$4.8M - $11M
(annually)

Financial Analysis Results | Bill 46 Current Draft

Tax rate raised from 1% to 3%

	Tax Year (Forecasted)											Cumulative Total
	0	1	2	3	4	5	6	7	8	9	10	
Gross Revenue from Tax & Penalties	-	$14.1M	$14.6M	$43.6M	$45.2M	$46.7M	$48.3M	$50.0M	$51.7M	$53.5M	$55.4M	**$423.1M**
Implementation Costs	($2.3M)	-	-	-	-	-	-	-	-	-	-	**($2.3M)**
Operating Costs	-	($4.5M)	($4.6M)	($4.8M)	($4.9M)	($5.0M)	($5.1M)	($5.3M)	($5.4M)	($5.6M)	($5.7M)	**($50.9M)**
Foregone Revenue	-	($6.7M)	($6.9M)	($7.2M)	($7.5M)	($7.7M)	($8.0M)	($8.3M)	($8.7M)	($9.0M)	($9.3M)	**($79.3M)**
Annual Net Financial Impact	($2.3M)	$2.9M	$3.0M	$31.7M	$32.8M	$34.0M	$35.1M	$36.4M	$37.6M	$38.9M	$40.3M	**$290.6M**
Cumulative Net Financial Impact	($2.3M)	$.6M	$3.6M	$35.4M	$68.2M	$102.2M	$137.3M	$173.7M	$211.3M	$250.3M	$290.6M	

In year 1, implementation costs are paid back

Note: Some numbers may not add up due to rounding.

Conclusions and Considerations

Financial Feasibility

Based on initial analysis, an EHT program appears to be financially feasible in Honolulu.

Implementation Plan

Further work is needed to develop a detailed operating model and refine cost estimates.

Public Communication & Engagement

Education and engagement is critical to the success of an EHT.

Legal Context

Clarity on the legal status of EHT in relation to the Constitution is likely to take time and may require legal support to navigate.