SUMMARY OF PROPOSED COMMITTEE DRAFT:

Bill 34 (2024)
RELATING TO REAL PROPERTY TAXATION.

The PROPOSED CD1 makes the following amendments:

A. In SECTION 3 of the bill, amends ROH Section 8-11.1(1) to modify the transient vacation tax rate tiers as follows:

(1) Transient vacation Tier 1 tax rate: applied to the net taxable value of the property up to [~~$800,000; and~~] $900,000;

(2) Transient vacation Tier 2 tax rate: applied to the net taxable value of the property in excess of [~~$800,000.~~] $900,000 and up to $2,000,000; and

(3) Transient vacation Tier 3 tax rate: applied to the net taxable value of the property in excess of $2,000,000.

B. In SECTION 3 of the bill, deletes proposed new ROH Section 8-11.1(j) establishing valuation tiers for properties classified as bed and breakfast homes.

C. Amends SECTION 5 of the bill to provide that the ordinance applies to the tax years beginning July 1, 2027, and thereafter, instead of July 1, 2025, and thereafter.

D. Makes miscellaneous technical and nonsubstantive amendments.

HONOLULU CITY COUNCIL

KE KANIHELA O KE KALANA O HONOLULU

CITY AND COUNTY OF HONOLULU

ORDINANCE _____

BILL **34 (2024), CD1**

PROPOSED

A BILL FOR AN ORDINANCE

RELATING TO REAL PROPERTY TAXATION.

BE IT ORDAINED by the People of the City and County of Honolulu:

SECTION 1. Purpose. The purpose of this ordinance is to address real property tax rates.

SECTION 2. Section 8-7.1, Revised Ordinances of Honolulu 2021 ("Valuation—Considerations in fixing"), is amended by amending subsection (c) to read as follows:

"(c) (1) Real property must be classified into the following general classes, upon consideration of its highest and best use, and upon other criteria set forth in this section:

(A) Residential;

(B) Hotel and resort;

(C) Commercial;

(D) Industrial;

(E) Agricultural;

(F) Preservation;

(G) Public service;

(H) Vacant agricultural;

(I) Residential A;

(J) Bed and breakfast home; and

(K) Transient vacation.

(2) In assigning real property to one of the general classes, the director shall give major consideration to the districting established by the city in its general plan and zoning ordinance, specific class definitions or criteria set

forth in this section, and such other factors [~~which~~] that influence highest and best use.

Notwithstanding the city's zoning district classification, the director shall assign to the agricultural class any real property classified as tree farm property under HRS Chapter 186.

(3) When real property is subdivided into condominium units, each unit and its appertaining common interest:

(A) Will be deemed a parcel and assessed separately from other units; and

(B) Will be classified as follows:

(i) If the unit has a single, legally permitted, exclusive actual use, it must be classified upon consideration of the unit's actual use into one of the general classes in the same manner as real property;

(ii) If the unit has multiple, legally permitted uses, it must be classified:

(aa) Upon consideration of the unit's highest and best use into one of the general classes in the same manner as real property; or

(bb) Residential, only upon approved dedication as provided in § 8-7.5 when the unit is legally permitted multiple exclusive uses, including residential use; or

(iii) If the unit is a condominium parking unit or a condominium storage unit, it must be classified as residential, only upon approved dedication when the unit is used in conjunction with a unit in residential use within the project.

(4) "Residential A" means a parcel, or portion thereof, which:

(A) Is improved with no more than two single-family dwelling units; and

(i) Has an assessed value of [~~$1,000,000~~] $1,300,000 or more;

(ii) Does not have a home exemption; and

(iii) Is zoned R-3.5, R-5, R-7.5, R-10, or R-20 or is dedicated for residential use;

(B) Is vacant land zoned R-3.5, R-5, R-7.5, R-10, or R-20 and has an assessed value of [~~$1,000,000~~] $1,300,000 or more; or

(C) Is a condominium unit classified as residential under subdivision (3)(B) with an assessed valuation of [~~$1,000,000~~] $1,300,000 or more and does not have a home exemption.

Residential A excludes any parcel, or portion thereof, improved with military housing located on or outside of a military base.

(5) Notwithstanding this subsection, real property with the following uses must be classified as follows:

(A) Real property used as a bed and breakfast home, in accordance with Chapter 21 (the land use ordinance), must be classified as bed and breakfast home. "Bed and breakfast home" has the same meaning as defined in § 21-10.1.

(B) Real property used as a transient vacation unit, in accordance with Chapter 21 (the land use ordinance), must be classified as transient vacation. "Transient vacation unit" has the same meaning as defined in § 21-10.1.

(C) Real property used as a time share unit[~~.~~], in accordance with HRS Chapter 514E and Chapter 21 (the land use ordinance), must be classified as hotel and resort. "Time share unit" has the same meaning as defined in § 21-10.1.

Property used as a bed and breakfast home, transient vacation unit, or time share unit must not be classified as residential or residential A.

(6) "Vacant agricultural" means a parcel, or portion thereof, that would otherwise be classified as agricultural by the director upon major consideration of the districting established by the city in its general plan and zoning ordinance and of such other factors that influence highest and best use, but which parcel, or portion thereof:

(A) Has no residential buildings; and

(B) Is not dedicated for agricultural purposes.

If a portion of a parcel is dedicated as vacant agricultural, the remainder of the parcel that is zoned agricultural must be dedicated for agricultural use.

(7) Notwithstanding this subsection, all real property actually used by a public service company in its public service business will be classified as public service. For the purposes of this subsection, "public service company" means a public utility, except airlines, motor carriers, common carriers by water, and contract carriers, where:

(A) "Public utility" includes every person [~~who~~] that may own, control, operate, or manage as owner, lessee, trustee, receiver, or otherwise, whether under a franchise, charter, license, articles of association, or otherwise, any plant or equipment, or any part thereof, directly or indirectly for public use, for the transportation of passengers or freight, or the conveyance or transmission of telecommunications messages, or the furnishing of facilities for the transmission of intelligence by electricity by land, water, or air within the State, or between points within the State, or for the production, conveyance, transmission, delivery, or furnishing of light, power, heat, cold, water, gas, or oil, or for the storage or warehousing of goods, or the disposal of sewage; provided that the term:

(i) Includes any person insofar as that person owns or operates a private sewer company or sewer facility;

(ii) Includes any telecommunications carrier or telecommunications common carrier;

(iii) Does not include any person insofar as that person owns or operates an aerial transportation enterprise;

(iv) Does not include persons owning or operating taxicabs, as defined in this subsection;

(v) Does not include common carriers transporting only freight on the public highways, unless operating within localities or along routes or between points that the State [~~Public Utilities Commission~~] public utilities commission finds to be inadequately serviced without regulation under this chapter;

(vi) Does not include persons engaged in the business of warehousing or storage, unless the State [~~Public Utilities Commission~~] public utilities commission finds that regulation thereof is necessary in the public interest;

(vii) Does not include:

(aa) The business of any carrier by water to the extent that the carrier enters into private contracts for towage, salvage, hauling, or carriage between points within the State and the carriage is not pursuant to either an established schedule or an undertaking to perform carriage services on behalf of the public generally; and

(bb) The business of any carrier by water, substantially engaged in interstate or foreign commerce, transporting passengers on luxury cruises between points within the State or on luxury round-trip cruises returning to the point of departure;

(viii) Does not include any person [~~who~~] that:

(aa) Controls, operates, or manages plants or facilities for the production, transmission, or furnishing of power primarily or entirely from [~~nonfossil~~] non-fossil fuel sources; and

(bb) Provides, sells, or transmits all of that power, except such power as is used in its own internal operations, directly to a public utility for transmission to the public;

(ix) Does not include a telecommunications provider only to the extent determined by the State [~~Public Utilities Commission,~~] public utilities commission, pursuant to applicable State law;

(x) Does not include any person [~~who~~] that controls, operates, or manages plants or facilities developed pursuant to applicable State law for conveying, distributing, and transmitting water for irrigation and such other purposes that [~~shall be~~] are held for public use and purpose; and

(xi) Does not include any person [~~who~~] that owns, controls, operates, or manages plants or facilities for the reclamation of wastewater; provided that:

(aa) The services of the facility must be provided pursuant to a service contract between the person and a State or city agency and at least 10 percent of the wastewater processed is used directly by the State or [~~a~~] city agency that has entered into the service contract;

(bb) The primary function of the facility must be the processing of secondary treated wastewater that has been produced by a municipal wastewater treatment facility that is owned by a State or city agency;

(cc) The facility must not make sales of water to residential customers;

(dd) The facility may distribute and sell recycled or reclaimed water to entities not covered by a State or city service contract; provided that in the absence of regulatory oversight and direct competition, the distribution and sale of recycled or reclaimed water must be voluntary and its pricing fair and reasonable.

For the purposes of this subparagraph, "recycled water" and "reclaimed water" mean treated wastewater that by design is intended or used for a beneficial purpose; and

(ee) The facility must not be engaged, either directly or indirectly, in the processing of food wastes;

(B) "Motor carrier" means a common carrier or contract carrier transporting freight or other property on the public highways, other than a public utility or taxicab;

(C) "Contract carrier" means a person other than a public utility or taxicab [~~which,~~] that, under contracts or agreements, engages in the transportation of persons or property for compensation, by land, water, or air;

(D) "Carrier" means a person [~~who~~] that engages in transportation, and does not include a person such as a freight forwarder or tour packager [~~who~~] that provides transportation by contracting with others, except to the extent that [~~such~~] the person engages in transportation;

(E) "Taxicab" includes:

(i) Any motor vehicle used in the movement of passengers on the public highways under the following circumstances, namely, the passenger hires the vehicle on call or at a fixed stand, with or without baggage for transportation, and [~~controls~~] directs the vehicle to the passenger's destination; and

(ii) Any motor vehicle having seating accommodations for eight or [~~less~~] fewer passengers used in the movement of passengers on the public highways between a terminal, i.e., a fixed stand, in the city, and a terminal in a geographical district outside the limits of the city, and vice versa, without picking up passengers other than at the terminals or fixed stands; provided that passengers may be unloaded at any point between terminals; and provided further that this

definition relating to motor vehicles operating between terminals pertains only to those motor vehicles whose operators or owners were duly licensed under any applicable provision of law or ordinance and doing business between such terminals on January 1, 1957;

(F) "Telecommunications carrier" or "telecommunications common carrier" means any person that owns, operates, manages, or controls any facility used to furnish telecommunications services for profit to the public, or to classes of users as to be effectively available to the public, engaged in the provision of services, such as voice, data, image, graphics, and video services, that make use of all or part of their transmission facilities, switches, broadcast equipment, signaling, or control devices; and

(G) "Telecommunications service" or "telecommunications" means the offering of transmission between or among points specified by a user, of information of the user's choosing, including voice, data, image, graphics, and video without change in the form or content of the information, as sent and received, by means of electromagnetic transmission, or other similarly capable means of transmission, with or without benefit of any closed transmission medium, and does not include cable service as defined under applicable State law."

SECTION 3. Section 8-11.1, Revised Ordinances of Honolulu 2021, is amended to read as follows:

"**§ 8-11.1 Real property tax—Determination of rates.**

(a) For the purposes of this article, the following definitions apply unless the context clearly indicates or requires a different meaning.

Base Tax Year. The tax year immediately before the budgeted tax year.

Budgeted Tax Year. The tax year beginning July 1 from which real property tax revenues are to help finance the proposed legislative and executive budgets.

Class of Property. A class of real property established in accordance with § 8-7.1(c).

Estimated Uncontrollable Cost Adjustment. A factor representing costs that the city is mandated or obligated to pay.

Initial Tax Rate. The preliminary tax rate for a class of property as determined in subsection (b).

Net Taxable Real Property. The fair market value of property determined pursuant to this chapter that the director certifies as the tax base as provided by ordinance less exemptions as provided by ordinance and, in all cases where appeals from the director's assessment are then unsettled, less 50 percent of the value in dispute.

Tax Rate. The dollar amount of tax levied under this chapter per $1,000 of net taxable real property, computed to the nearest cent.

(b) The council shall annually set the tax rate or rates in accordance with this subsection for the classes of real property established in accordance with § 8-7.1(c). A resolution setting the tax rate or rates must be adopted by the council during the same meeting at which the applicable legislative and executive budget bills are passed on third reading. The tax rate or rates must be set according to the following procedures. The procedures provide for initial tax rates for the net taxable real property within each class of property to be established by the director. The initial tax rates are established in a way that the average real property tax liability within each class of property does not change in the budgeted tax year compared to the base tax except for the estimated uncontrollable cost adjustment only.

(1) The director shall establish the initial tax rates for all taxable classes of property using the following method:

(A) The director shall establish the estimated change in the operating uncontrollable costs of the city, expressed as a percentage of the base tax year's total net tax liability of all classes;

(B) The director shall determine the average tax liability for each class of property for the base tax year as follows: sum the net tax liability for the base tax year of all parcels within the class, then divide the result by the total number of tax parcels in the class;

(C) The director shall then determine the average tax liability for each class of property for the budgeted tax year as follows: adjust the figure determined under paragraph (B) by the estimated uncontrollable cost adjustment;

(D) The director shall then determine the amount to be raised by the initial tax rate for each class of property for the budgeted tax year as follows: multiply the figure determined under paragraph (C) for each class of property by the total number of tax parcels in the class for the budgeted tax year; and

(E) The director shall then determine the initial tax rate per $1,000 of net taxable real property in each class of property for the budgeted tax year as follows: divide the figure determined under paragraph (D) for each class of property by the assessed valuation of net taxable real property within each class of property for the budgeted tax year, then multiply the result by 1,000, then round the result to the nearest cent.

(2) The mayor may propose to the council that the initial tax rates be adopted or be increased or decreased for any class of property. The tax rates proposed by the mayor must be set forth in the form of a resolution transmitted to the council at the same time that other revenue measures for the budgeted tax year are transmitted.

(3) Upon receipt of the mayor's proposed tax rate resolution, the council may adopt the initial tax rates, the mayor's proposed tax rates, or propose new rates.

(c) (1) The council shall advertise its intention to set the tax rate or rates and the date, time, and place of a public hearing in accordance with law. The date of the public hearing must be not less than 10 days after the advertisement is first published and must set forth the proposed tax rate or rates to be considered by the council.

(2) After the public hearing provided for in subdivision (1), the council shall readvertise and reconvene to adopt a resolution setting the tax rate or rates for the tax year for which property tax revenues are to be raised. The advertisement must state the rate or rates proposed to be set and the

date, time, and place of the meeting scheduled for setting the rate or rates. The date, time, and place of the meeting must also be announced at the public hearing required by subdivision (1).

(3) If, after adopting an increase or decrease in the tax rates as provided by subdivisions (1) and (2), the council determines that it requires a further increase or decrease in tax rates, the council shall readvertise and follow the requirements of subdivisions (1) and (2).

(d) The council shall notify the director of the tax rate or rates set for a tax year before the commencement of that tax year. Upon receipt of the notification, the director shall use the rate or rates in the levying of property taxes as provided by this chapter.

(e) The director shall, on or before February 1 preceding the tax year, furnish the council with a calculation certified by the director as being as nearly accurate as possible of the net taxable real property within the city, separately stated for each class established in accordance with § 8-7.1(c) plus such additional data relating to the property tax base as may be necessary. The director shall include the amount of all tax credits granted under Article 13 for the current tax year and the amount of all tax credit denials appealed during the current tax year as part of the information required by this subsection.

(f) Insofar as the validity of any tax rate is concerned, the provisions of subsection (e) as to dates are directory; provided that all other provisions of this section are mandatory.

(g) Notwithstanding any provision to the contrary, a minimum real property tax of $300 a year is levied upon each individual parcel of real property taxable under this chapter, except for properties exempt under § 8-10.24 and except as provided in § 8-10.25(b)(2).

(h) Notwithstanding any provision to the contrary, rates for property classified as residential A must be assigned to [~~two~~] three tiers based on the valuation of the property. The tiers are as follows:

(1) Residential A Tier 1 tax rate: applied to the net taxable value of the property up to [~~$1,000,000; and~~] $1,300,000;

(2) Residential A Tier 2 tax rate: applied to the net taxable value of the property in excess of [~~$1,000,000.~~] $1,300,000 and up to $3,500,000; and

(3) Residential A Tier 3 tax rate: applied to the net taxable value of the property in excess of $3,500,000.

(i) Notwithstanding any provision to the contrary, rates for property classified as transient vacation must be assigned to [~~two~~] three tiers based on the valuation of the property. The tiers are as follows:

(1) Transient vacation Tier 1 tax rate: applied to the net taxable value of the property up to [~~$800,000; and~~] $900,000;

(2) Transient vacation Tier 2 tax rate: applied to the net taxable value of the property in excess of [~~$800,000.~~] $900,000 and up to $2,000,000; and

(3) Transient vacation Tier 3 tax rate: applied to the net taxable value of the property in excess of $2,000,000."

SECTION 4. Ordinance material to be repealed is bracketed and stricken. New ordinance material is underscored. When revising, compiling, or printing this ordinance for inclusion in the Revised Ordinances of Honolulu, the Revisor of Ordinances need not include the brackets, the material that has been bracketed and stricken, or the underscoring.

A BILL FOR AN ORDINANCE

SECTION 5. This ordinance takes effect upon its approval and applies to tax years beginning July 1, 2027, and thereafter.

INTRODUCED BY:

Esther Kiaʻāina

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_____

DATE OF INTRODUCTION: _____

_____

May 14, 2024 _____
Honolulu, Hawaiʻi Councilmembers

APPROVED AS TO FORM AND LEGALITY:

_____
Deputy Corporation Counsel

APPROVED this _____day of _____, 20 ___.

_____
RICK BLANGIARDI, Mayor
City and County of Honolulu

Report Title:
Real Property Tax; Classifications; Valuation; Residential; Dwellings; Transient Vacation; Residential A Properties

Description:
Increases the assessed value threshold for properties to be classified as Residential A. Amends valuation tiers for properties classified as Residential A and transient vacation. Effective upon approval and applies to tax years beginning July 1, 2027, and thereafter.

The summary description of legislation appearing on this page is for informational purposes only and is not legislation or evidence of legislative intent.